



CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF PUBLIC AND PRIVATE SECTOR BANKS: A COMPARATIVE STUDY OF CANARA BANK AND SOUTH INDIAN BANK

Dr. Satheesh E.K¹, Rohini S², Arathi Sivaram³

¹Registrar, University of Calicut, Kerala, India.

²Mphil Scholar, Department of commerce and management studies, University of Calicut, Kerala, India.

³Ph.D scholar, Department of commerce and management studies, University of Calicut, Kerala, India.

ORCID : 0000-0003-3580-6584

Corresponding Author: Rohini S, Mphil Scholar, Department of commerce and management studies, University of Calicut, Kerala, India.

Article DOI: <https://doi.org/10.36713/epra11175>

DOI No: 10.36713/epra11175

ABSTRACT

Failure of a bank has serious connotations for effectiveness of the financial system in an economy. Therefore, corporate governance of banks needs special attention and it ushers the need to measure Corporate Governance Index and examine the relationship between Corporate Governance Index and Financial Performance of Banks. Data was collected from annual reports to examine the CGI and Financial Performance of banks. Data was analyzed by using independent sample 't' test and correlation analysis. The results indicated that Canara Bank and South Indian Bank are following corporate governance mechanism. There is a significant difference among Canara Bank and South Indian Bank concern with profitability ratios other than Earnings per share and Price earnings ratio. On the other hand CGI of the Canara Bank and the South Indian Bank is insignificantly associated with the financial performance of the banks during the research period (2015-2016 to 2019-2020).

KEY WORDS: Corporate Governance, Corporate Governance Index, Financial Performance

JELCLASSIFICATION: G21,G30,G34

1. INTRODUCTION

The concept of corporate governance covers a set of rules, procedures and operational structures that guides the short term and long term actions of companies, banks etc..... Corporate Governance is needed to create a corporate culture of consciousness, transparency and openness. It refers to a combination of law, rules, regulations, procedures and voluntary practices to enable companies to maximize shareholder's long term value. The Basel Committee on Banking Supervision has been working in this field for many years, both directly and through its many contacts with banking supervisors in every part of the world. Financial Performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period. The present study carried out to throw light over the Corporate Governance and Financial Performance of public and private sector banks with special reference to Canara Bank and SIB. The fragments like Board of Directors, Audit Committee, remuneration committee and some of the important financial ratios etc build up the foundation for the study to be conducted. The objectives of the study are to construct a corporate governance index for the assessment of the banks and to measure CGI score and financial performance of the banks.

2. REVIEW OF LITERATURE

A number of studies were conducted in the area of Corporate Governance and Financial Performance at national and international level. Following studies clarifies the importance and significance of the present study for researchers, banking sector and government. The recap through the studies provides an insight into theories and



concepts and also helpful to identify the mandatory and non-mandatory requirements of corporate governance and indicators of financial performance. Thus these studies have a help to better understand the significance of the study and the methodology used by the researchers. The study of Mr. Prachi and Premanand and Kolamker (2020) in the Goa University, found that CG Practices helps in curbing the Earnings Management Practices of the companies and has led to uplifting the financial performance of the companies. On the other hand, Snigdha and Misra (2019) in the Banaras Hindu University, found that all the selected telecommunication companies have duly complied with the provisions of corporate governance and there is a significant difference among the various parameters of Clause 49. Furthermore, Sonal and Shashikant and Solanki (2018) in the Gujarat University, found that corporate governance disclosure practices within companies of Automobile Sector, within companies of FMCG Sector and within companies of Pharma Sector is different. In other words, some companies follow excellent disclosure practices whereas some companies follow good disclosure practices. Corporate governance disclosure practices within companies of Cement sector as well as IT sector are equal. The study of Parul and Saraswat (2018) in the Dayalbagh Educational Institute in Agra, investigated that a good number of BRICS banks listed in stock exchange have disclosed the information on various issues of Corporate Governance to assure regulatory requirements and to increase the confidence between business and society. Additionally, Naresh Kumar (2018) in the Kurukshetra University advocated that corporate governance practices has the significant impact on all the performance (efficiency and productivity) variables of the study except TQR in selected public sector banks. The study further concludes that corporate governance has the significant impact on BEPS, DPS, TQR, ROA, ROE, NIM, NNPA, IPE and BPE except NPM and PPE in selected private sector banks. After conducting a detailed survey among the previous studies, it is arrived at a conclusion that there are so many mandatory and non-mandatory requirements for corporate governance and so many indicators for financial performance. After checking them, indicators of corporate governance are grouped in to some specific groups including board of directors, audit committee, remuneration committee, general body meetings, ownership structure, whistle blower policy, shareholders and investors grievances committee for the construction of corporate governance index and profitability ratios are taken into consideration for measuring financial performance.

3. RESEARCH METHODOLOGY

The research study is analytical in nature. It has been undertaken to assess practices of Corporate Governance specifically in Banking Sector. This research is aimed at studying and analyzing the level of Corporate Governance in and Financial Performance of the banks and suggesting the ways of improvements in their code of conduct, if needed. As it embraces comparison of two banks, it is a comparative study which is also evaluative in nature. This study is generally based on the secondary data that are readily available.

3.1 Objectives

1. To construct a Corporate Governance Index for the assessment of the banks
2. To measure CGI Score and Financial Performance of the banks
3. To study the significant difference between two banks based on their profitability ratios
4. To examine the relationship between CGI Score and Financial Performance of the banks

3.2 Sample and Data

The sample for the study consists of two banks, Canara Bank from public sector and South Indian Bank from private sector. Lottery method of sample selection is used to select these two banks from the list of public sector and private sector banks. A list of top ten public sector banks and private sector banks is prepared and two banks were selected by random sampling method using lottery method for comparison. Annual financial statements are decided to collect from official websites of both Canara Bank and South Indian Bank to collect secondary data.

3.3 Period of study

The study covers a period of 5 years from 2015-2016 to 2019-2020.

3.4 Tools for Data Analysis

For the purpose of data analysis the study used several Descriptive Statistical tools like mean, standard deviation and standard error, the study also used Independent sample t test and Correlation to test the hypotheses mentioned in this study.



4 RESULT ANALYSIS AND INTERPRETATION

The analysis is carried out to know the level Corporate Governance Mechanism and Financial performance of public and private sector banks (Canara Bank and South Indian Bank). Analyzing the CGI of Canara Bank and South Indian Bank, researcher found that both banks are performing well in Corporate Governance practices. While comparing the mean value of CGI between two banks, it is on an average 27.40 for Canara Bank and 27.60 for SIB. It is clear from the CGI average that there is no difference in the CGI scores of the Canara Bank and South Indian Bank for continuous five years, indicating that both banks are obeying Corporate Governance norms as per the CGI constructed by the researcher for the research period (from 2015-2016 to 2019-2020).

4.1 Financial Performance Analysis

Based on the financial performance analysis, it is found that the NPR between two banks, it is on an average (-3.544) for Canara Bank and 4.606 for SIB. Also the standard deviation between five years is high for this Canara Bank, that is 5.273, but less for SIB, it is just only 2.16. Analysing the OPR between two banks, it is on an average (-18.778) for Canara Bank and (-7.204) for SIB. Here, OPR of Canara Bank and SIB are negative figures. The SD between five years is high for Canara Bank, that is 5.273, but it is less for SIB, it is just only 3.28. The average ROI between two banks are fluctuating, (-1.04) for Canara Bank and 2.92 for SIB. Also, the SD between five years is high for this Canara Bank, i.e., 1.526, but it is less for SIB, it is just only 0.689. So the deviation is very less for SIB. Financial performance analysis represents that the ROA between two banks is on an average (-0.25) for Canara Bank and 0.376 for SIB. The SD between five years is high for Canara Bank, i.e., 0.363, but it is less for SIB, it is just only 0.194. The EPS between two banks is on an average (-25.048) for Canara Bank and 1.778 for SIB. Also the SD between five years is high for this Canara Bank, i.e., 38.252, but it is less for SIB, it is just only 0.8335. Analysing Earnings Yield Ratio between two banks, it is on an average (-0.13) for Canara Bank and 0.10 for SIB. The SD between five years of Canara Bank, i.e., 0.156 is more when comparing to SIB i.e., 0.0244. Financial performance analysis revealed that the Earnings Ratio between Canara Bank and South Indian Bank are 11.868 and 10.218 respectively. Analysing the SD between five years is high for Canara Bank, i.e., 26.014, but it is less for SIB, it is just only 2.6608. It can be concluded that South Indian Bank have a better Financial Performance than Canara Bank based on the Profitability Ratios that the researcher took for this analysis.

4.2 Hypotheses Testing

Objective: "To study the significant difference between two banks based on their profitability ratios"

Table 4.1 Mean and Significant Value of Profitability Ratios

Ratios	Bank	Mean	Std. Deviation	Std. Error Mean	t	Df	Sig
NPR	Canara Bank	-3.5440	5.27359	2.35842	-3.198	8	.022
	SIB	4.6060	2.16054	.96622			
OPR	Canara Bank	-18.7780	5.33599	2.38633	-4.132	8	.005
	SIB	-7.2040	3.28049	1.46708			
ROI	Canara Bank	-1.0400	1.52689	.68285	-5.285	8	.002
	SIB	2.9200	.68986	.30851			
ROA	Canara Bank	-.2500	.36318	.16242	-3.399	8	.014
	SIB	.3760	.19424	.08687			
EPS	Canara Bank	-25.0480	38.25269	17.10712	-1.568	8	.192
	SIB	1.7780	.83359	.37279			
EYR	Canara Bank	-.1300	.15684	.07014	-3.240	8	.030
	SIB	.1000	.02449	.01095			
PER	Canara Bank	11.8680	26.01475	11.63415	.141	8	.894
	SIB	10.2180	2.66087	1.18998			

Level of Significance: $\alpha=5\%$

Financial performance analysis conducted to study the significant difference among the Canara Bank and South Indian Bank concern with their profitability ratios. For this purpose researcher used descriptive analysis and independent sample 't' test. Results obtained from this analysis indicates that there is a significant difference among two types of bank concern with Net Profit Ratio, Operating Profit Ratio, and Return on Investment, and Return on



Asset, and Earnings Yield Ratio and there is no significant difference among banks concern with non-significant variables, i.e., Earnings per Share and Price Earnings Ratio.

Objective: “To examine the relationship between CGI Score and Financial Performance of the Banks”

Table 4.2 Correlation between CGI Score and Profitability Ratios of Canara Bank

Profitability Ratios		N	Mean	SD	Pearson Correlation	P Value
NPR	CGI	5	27.4000	.54772	.283	.645
	NPR	5	-3.5440	5.27359		
OPR	CGI	5	27.4000	.54772	.319	.601
	OPR	5	-18.7780	5.33599		
ROI	CGI	5	27.4000	.54772	.311	.611
	ROI	5	-1.0400	1.52689		
ROA	CGI	5	27.4000	.54772	.302	.622
	ROA	5	-.2500	.36318		
EPS	CGI	5	27.4000	.54772	.338	.578
	EPS	5	-25.0480	38.25269		
EYR	CGI	5	27.4000	.54772	.116	.852
	EYR	5	-.1300	.15684		
PER	CGI	5	27.4000	.54772	.497	.394
	PER	5	11.8680	26.01475		

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

Table 4.3 Correlation between CGI Score and Profitability Ratios of South Indian Bank

Profitability Ratios		N	Mean	SD	Pearson Correlation	P Value
NPR	CGI	5	27.6000	.54772	-.078	.901
	NPR	5	4.6060	2.16054		
OPR	CGI	5	27.6000	.54772	-.576	.310
	OPR	5	-7.2040	3.28049		
ROI	CGI	5	27.6000	.54772	-.159	.799
	ROI	5	2.9200	.68986		
ROA	CGI	5	27.6000	.54772	-.066	.916
	ROA	5	.3760	.19424		
EPS	CGI	5	27.6000	.54772	-.156	.803
	EPS	5	1.7780	.83359		
EYR	CGI	5	27.6000	.54772	-.373	.537
	EYR	5	.1000	.02449		
PER	CGI	5	27.6000	.54772	.421	.480
	PER	5	10.2780	2.66087		

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

Researcher has used seven profitability ratios for financial performance analysis and CGI to measure the relationship of CGI and financial performance of Canara bank (public sector bank) and SIB (Private Sector Bank). Profitability ratios are considered as dependent variables and CGI is considered as Independent variable. The results obtained from the correlation analysis of Canara Bank indicates that CGI is found to be insignificantly positively associated with Net Profit Ratio, Operating Profit Ratio, and Return on Investment, and Return on Asset, and Earnings per Share, and Earnings Yield Ratio, and Price Earnings Ratio. And based on the results of correlation between CGI and profitability ratios of SIB, it is found that CGI is insignificantly negatively associated with Net Profit Ratio, Operating Profit Ratio, Return on Investment, Return on Asset, and Earnings per Share, and Earnings Yield Ratio and insignificantly positively associated with Price Earnings Ratio, because the p value in all the results are greater than 0.05.



5 CONCLUSIONS

The overall result of the study can be concluded that Canara Bank and SIB are following corporate governance mechanisms as per corporate governance norms and regulations. And researcher could not find any difference among the average CGI scores of both the banks for the research period from 2015-2016 to 2019-2020. Financial performance analysis represents that, on a first impression SIB is performing much better than that of Canara Bank, and there is a significant difference among Canara Bank and South Indian Bank concern with profitability ratios other than Earnings per Share and Price Earnings Ratio. On the other hand CGI of the Canara Bank and the South Indian Bank is insignificantly associated with the financial performance of the banks during the research period.

6 SUGGESTIONS

Based on the findings and conclusion, the researcher would like to forward the following suggestions to the banks. Both the banks have to go beyond the essential norms of corporate governance disclosure practices in order to get more transparency and higher levels of governance. To attract depositors, banks should disclose more and more information. To attract investors, banks have to fulfil mandatory as well as non-mandatory recommendations. Bank officials should participate in seminars, research studies and conferences conducted by regulatory authorities at regular intervals to get suggestions for further improvement in existing governance norms and regulations. Banks must adopt good governance practices as per the international standards. It is better to encourage all the banks to apply for corporate governance rating from authenticated rating agencies. The investors can use the CGI to know about the governance practices of the banks and the CGI scores of banks and make comparison with each other and then make a decision on investments. The regulatory bodies must update rules applicable for good governance practices. The regulators must create reporting standards especially for banks. The regulatory authorities must take initiative to come up with readily available corporate governance index so that investors get clear in-depth information on governance practices.

7 LIMITATIONS AND FUTURE RESEARCH

The data, which is used for this study is based on annual reports of the banks which are published from time to time. Therefore the quality of research depends on quality and reliability of data published in annual reports. This study is based only on disclosed information of the banks. In the present study certain statistical tools and techniques are used, such tools and techniques have its own limitations, which are also applied to the study. This study is related with only selected public and private sector banks. Any generalization for universal applications cannot be applied here.

This research work is concentrated on Canara Bank and South Indian Bank only; hence further studies could be conducted based on other public sector and private sector banks. The present research work is concentrated on seven elements of corporate governance and financial performance; there are a number of corporate governance elements and profitability ratios not explored. The researcher can analyze the impact of merger effects in both public and private sector banks. Further studies can be conducted on Corporate Governance and its impact on CSR practices in public sector and private sector banks. This study focused on banks only; hence further studies can be done among non-banking financial institutions, foreign banks running in India, Regional Rural Banks in India and other industries etc...The research period of the study is limited to five years, further studies can be conducted by expanding the period of study and number of banks. This study is purely based on secondary data, hence primary data also could be incorporated and more generalized conclusions could be arrived.

REFERENCES

Books

1. A.C. Fernando, K.P. Muraleedharan & E.K. Satheesh. (2018). *Corporate Governance Principles, Policies and Practices (Third Edition)*. Pearson India Education Services Pvt. Ltd.
2. C.R.Kothari., and G.Garg. (2004). *Research Methodology-Methods and Techniques. (Second Edition)*. New Age International Publishers.
3. C.R.Kothari. (2004). *Research Methodology: Methods and Techniques. (Second Edition)*. New Age International Publishers.
4. K.Gupta, S., &P.Rangi. (2017). *Research Methodology: Methods, tools and Techniques*. Kalyani Publishers, New Delhi.
5. M.Y.Khan, P.K.Jain. (2011). *Financial Management Text, Problems and Cases (sixth edition)*. Tata McGraw Hill Education Private Limited, New Delhi.
6. Paneerselvam, R. (2014). *Research Methodology*. Phi Learning Pvt Ltd, New Delhi.



Research Articles

1. Andre Luiz Carvalhal da Silva, Ricardo Pereira Camara Leal. (2005). *Corporate Governance Index, Firm Valuation and Performance in Brazil*. *Journal of Economic Literature*.
2. Anshuman Kumar, Yatin Nihalani. (2014). *The Effect of Corporate Governance on the Performance of Indian Banks*. *International Journal of Innovative Research and Development*.
3. Arunima Haldar, S. V. D. Nageswara Rao. (2013). *Corporate Governance Index for Listed Indian Companies*. *Research Gate*.

Research Reports

1. Abdus Salam, C. (2013). *Practices of Corporate Governance in Selected Companies in Chennai – A Case Study*. *University of Madras*.
2. Amin Wibowo. (2008). *The Impact of Organisational Culture and Internal Corporate Governance on Organisational Performance in Indonesian Companies*. *Curtin University of Technology*.
3. Beena, S. Dave. (2012). *Corporate Governance in Banking Sector*. *Saurashtra University, Rajkot*.
4. Chaya, R. Gandhi. (2010). *A Study of Corporate Governance Practices in India*. *Kuvempu University*.
5. Dr. Nayantara Padhi, Dr. Kamal Vagreacha. (2017). *A Study on Corporate Governance Practices of Indian Financial Sector Companies*. *National Foundation for Corporate Governance*.
6. Gajera Alpesh Kumar Chandulal. (2016). *A Comparative Study of Financial Performance of Public Sector and Private Sector Banks with Special Reference to Affecting Factors and Their Impact on Performance Indicators*. *Gujarat Technological University*.
7. Irani Committee Report on Company Law (2005).
8. Jayati Sarkar, Subrata Sarkar, Kaustav Sen. (2012). *A Corporate Governance Index for Large Listed Companies in India*. *Indira Gandhi Institute of Development Research, Mumbai*.
9. Jyoti. (2016). *Impact of Corporate Governance on Performance of Indian Firms*. *Guru Jambheshwar University of Science and Technology*.
10. Manish Kumar. (2015). *Corporate Governance Practices in India – A Study of Selected Public and Private Sector Banks*. *Banaras Hindu University*.
11. Naresh Kumar. (2018). *Corporate Governance and Their Impact on Bank's Performance: An Empirical Investigation*. *Kurukshetra University*.
12. Palash Garani. (2016). *Corporate Governance and Firm Performance – A Study on Selected Companies in India*. *Assam University*.
13. Parul Saraswat. (2018). *Corporate Governance Practices in BRICS Countries: A Comparative Study of Banking Sector*. *Dayalbagh Educational Institute, (Deemed University), Dayalbagh, Agra*.
14. Prachi Arora. (2018). *Relationship Between Corporate Governance and Financial Performance in Indian Corporate Sector: An Empirical Analysis*. *Kurukshetra University*.
15. Prachi Premanand Kolamker. (2020). *Empirical Analysis of Impact of Corporate Governance on Selected Firm Performance in India*. *Goa University*.
16. Preethi, M. (2013). *Evaluation of Corporate Governance in Nationalised Banks in India*. *University of Mysore*.
17. *Report of the Kumar Mangalam Birla Committee on Corporate Governance*. *Chartered Secretary (March 2000)*.
18. Salim Ali Alghamdi. (2012). *Investigation into Earnings Management Practices and the Role of Corporate Governance and External Audit in Emerging Markets: Empirical Evidence from Saudi Listed Companies*. *Durham University*.
19. Sanjay, P. Parab. (2017). *A Study of Corporate Governance Practices Among Indian Listed Companies on Selected Indicators*. *Savitribai Phule Pune University*.
20. Sarabjeet Kaur Gogia. (2013). *Corporate Governance in Public Sector Bank and Private Sector Bank: A Comparative Study of SBI and ICICI Bank*. *The IIS University, Jaipur*.
21. Sarkar, J., Sarkar, S., & Sen, K. (2012, March 30). *A corporate governance index for large listed companies in India*. *Mumbai: Indira Gandhi Institute of Development Research*.
22. Snigdha Mishra. (2019). *A Study on the Corporate Governance Practices of Selected Telecommunication Companies in India*. *Banaras Hindu University*.
23. Smith, A. (1976). *An Inquiry Into the Nature and Causes of the Wealth of Nations*. *Chicago: University of Chicago Press*.
24. Soma Dey. (2011). *Financial Performance of Selected Public Sector and Private Sector Banks in India During 1994-2004: A Comparative Study*. *University of Burdwan, West Bengal*.
25. Sonal Shashikant Solanki. (2018). *Corporate Governance Practices with Reference Through to Corporate Disclosures in India*. *Gujarat University*.
26. S. Sandhya. (2019). *A Study on Corporate Governance Practices of Selected Banks in India*. *RK. University, Pune*.
27. Suresh Kana, Chief Executive Officer. *King's Counsel – Understanding and Unlocking the Benefits of Sound Corporate Governance*. *Price Waterhouse Coopers, Southern Africa*.
28. *The Combined Code of Best Practices in Corporate Governance, The Turnbull Committee Report (1999)*.
29. *The Committee on Corporate Governance, The Hampel Committee Report (1995)*.



Websites

1. www.investopedia.com
2. www.moneycontrol.com
3. www.oecd.org
4. www.researchgate.net
5. www.sebi.com
6. www.shodhganga.inflibnet.ac.in
7. www.wikipedia.com
8. www.worldbank.org