Corporate Governance and Profitability: Evidence from Small Finance and Private Banks in India

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Abstract

Corporate Governance (CG) plays an indispensable role in today's financial environment. In developing countries, it acts as perception creator in addition to fuel for attracting investments from across the world. Better CG has an impact on economies of the countries throughout the globe. In the present study, we identify the impact of corporate governance variables on profitability of private and small finance banks in India. We have used panel data of 25 private and small finance banks in India. The data was taken for the period 20162021.The dissection involves 5 CG variables relating to board independence, women directors, board committees, ownership structure and board meetings. 2 control variables namely firm size and firm age. Return on Asset (ROA) was used as an indicator of bank 's profitability. Based on the diagnostics tests, Ordinary Least Square Regression was applied. The results reflects that board independence with p-value of 0.00 has a positive influence on bank's profitability. Also the F Statistics is at 4.585, which is significant and can sufficiently explain the relationship between corporate governance and Return on Asset. The study can help these banks to improve their profitability by having more independent directors on board with varied experience.

Key words: Bank Profitability; Corporate Governance ;Private Sector Bank ;ROA ; Small Finance Bank;India

Introduction

Emerging economies like India have banks as their keystone. Banks not only act as deposit mobilizers and credit providers for economy, but also act as implementers of Government's monetary policy. In recent years many banks had experienced terrible slump from pinnacle due to corrupt governance practices. This impromptu collapse led the financial sector to look into its CG protocol. Corporate Governance (CG) plays an indispensable role in today's financial environment. In developing countries, it acts as perception creator in addition to fuel for attracting investments from across the world. Better CG has an impact on economies of the countries throughout the globe.

- As per the OCED guidelines of CG: "Corporate Governance involves as set of relationships between the company's management, its board, shareholders and other stakeholders. CG acts as support system for economic growth and financial stability of an institution. The OECD guidelines on corporate governance are of importance for both OECD and Non OCED countries in the world. These guidelines consider 5 major areas of OECD principles as mentioned :
- Equal treatment to all shareholders
- Transparency and disclosure norms
- Board role and responsibility
- Stakeholder's role
- Major ownership function

As per OECD good CG instils faith and confidence in the minds of investor, paving the way for low cost funds for the company. OECD has established corporate governance round tables in five regions namely Asia, Russia, Latin America, Eurasia and South East Europe .This regional subdivisions help to assist good CG reforms across the globe (Jesover and

Kirkpatrick, 2005). As per the views of Yuniarti et al. (2018) "good CG is determined by managerial ownership and independence of the board of directors. Higher number of independent directors contribute good value to the firm performance. Afolabi and Dare (2015) concluded that CG principles reduce the risk of investors and in turn contribute to firms' performance. Reassuring the culture of transparency and business ethics paves the way for strong CG in any organization. Zulfikar et al. (2020) endowed that number of independent directors facilitate improvement of CG in organizations. Board characteristics had positive influence on level of CG.

In India ,studies on CG started only a decade ago. CG and its impact on firms' performance has been new-fangled subject of interest. CG provides basic framework for day-to-day operations. Indian corporates have different structural framework as compared to their counter parts in US or UK. Therefore, the CG structure in India is completely different (Palaniappan, 2017).

Banks act as pivot in developing nations by funding corporates for upscaling their operations. This direct funding to corporates in turn provides huge job opportunities to the population and gives an indirect boost to the economy of the nation. Hence, good CG can act as market stimulator, where people have faith in entrusting their hard-earned money to banks, who in turn churn the money by lending to corporates (Agnihotri and Gupta 2019). CG has very important role to play in banking sector, as this sector is unique in functioning from other businesses.

Main features which set banks apart from other sectors are; the level of opaqueness in bank's activities, in addition to an important role played by banks in implementing monetary and Government policies (Levine, 2004). Hence, failure of banks due to poor CG will not only affect its shareholders, general public, but also the economy of the country. In India, CG of banks is monitored by Reserve bank of India (RBI), through implementation of prudential norms. All the banks are strictly instructed to follow them and provide details to RBI through statutory disclosure reports. CG has been an important subject of research by academicians across the world.

In India banks are classified broadly as Public sector banks , private sector banks, cooperative banks, rural banks, small finance banks, foreign banks and payment banks.

The new entrant among the above mentioned banks are small finance banks and payment banks. Our research work concentrates on private sector and small finance banks in India. Small finance banks , as per directives of RBI given in 2015, are banks formed with focus of financial inclusion of Indian society. These banks work on the concept of high technology and low cost.

Reserve Bank of India (RBI) is the utmost authority on banking regulations in India. RBI (RBI,2021) gave guidelines to all commercial banks in India, for appointment of directors and constitution of board committees. All Indian commercial banks are expected to implement these aforesaid guidelines latest by Oct, 2021. Entire banking community in India, functioning come under its umbrella. The key highlights of these codes are stated as:

- The board of banks should be chaired by independent director.
- Furthermore, board meetings should be attended by half of the independent directors.
- The code also specifies that audit committee, nomination committee and risk management committee should constitute only non -executive directors. They shall meet the quorum of 3 members. Moreover ,at least one of the committee members should have professional expertise in the area. The reappointment for the same post can be considered only after cooling period of 3 years.

Corporate governance is governed by many theories. This study is based on agency theory of corporate governance These theories brief about the relationship between various stake holders of business while running the business activity. As per agency theory there are two partakers in any company namely managers(agents) and shareholders(principals). The managers have to look into best interest of the shareholders, without considering their self-interest. Agency theory further stipulates that adequate monitoring of agents is required to enhance the valuation of the firm(Tan ,2015).

Recent Studies on Corporate Governance Practices:

In the latest studies done by Mamatzakis et al. (2023) on Islamic and conventional banks reveal that Islamic banks cannot blindly adopt the practices of corporate governance. These banks may have complicated operations with adoption of corporate governance practices as they are already working under the guidelines of Sharia Board.

A study on country led corporate governance shows that private sector banks surpass the performance of public sector banks in India and these Private sector banks have positive and more significant impact on country led corporate governance. Hence these banks have higher profitability, as corporate governance impacts the profitability in Indian Banks (Almaqtariet al. , 2022). Research on Banks of Vietnam manifest that an alliance between innovation capabilities, management of knowledge and business strategies are greatly influenced by corporate governance practices in the country (Klen& That, 2022).

The Taiwanese Banking sector research study done by Chang-Sheng(2021) shows that presence of independent directors do not significantly improve the efficiency levels of the bank. Also, the boards of banks appoint top executives of banks based on the preferences of the family members of the board instead of their abilities.

In Tunisian markets, Corporate governance plays a major role in promoting transparency, creating corporate culture and in turn improving the financial performance. The corporate governance factors such as board size, ownership and independent board members have significant impact on performance of the organisation. Also the duality has impact on profitability of an industry. (Daadaa, 2021).

A study of Sub-African countries done by Abaidoo et al. (2022) reveals that corporate governance plays as very crucial role in development of country. Any instability in banking sector shakes the complete sub African region drastically by hindering growth.

A research work done on Ghanian banks by Boachie(2023), exhibits that performance of banks in Ghana is positively influenced by corporate governance factors such as bank size, CEO duality, audit independence and non -executive directors. Foreign Ownership in these banks has a collaborative effect between bank profitability and corporate governance.

Small and Micro Enterprises (SMEs)in India are going through process of tremendous change due to their listings on SME exchanges. This is impacting the overall presentation of SMEs in India. The studies done in this context exhibit that financial performance of ownership concentration of an enterprise are not significantly related. Also, most of these enterprises are facing issues of information asymmetry and agency problems. As these small and medium companies have inefficient governance practices, so the these companies are deprived from the benefits of corporate governance (Singh& Rastogi, 2023).

Research gap

The major research gaps observed in previous studies have been enlisted below:

- In India role of CG in banking sector is still not fully studied and lot of scope for research is there. This study is undertaken to identify the effect of CG on performance of Small Finance and Private Sector Banks in India.
- Most of the previous studies on corporate governance were taking into consideration firms and public sector banks.
- This study fills the knowledge gap on corporate governance factors influencing small finance Banks and private sector banks, as very little literature is available on the same.

Theoretical background and Hypothesis Development

In developing nations like India, banking sector forms the backbone of the country. The banks installs faith and trust in the minds of ordinary citizens, who are encouraged to place their lifetime saving with banks. Consequently, CG is pivotal for banking sector. Discrete, as banks lack transparency, have complex transactions and are regulated by Government authorities.

The stakeholders find it difficult to get clear picture of financial sector of bank's governance (Andres and Gonzalez, 2008). Board composition broadly incorporates the role of board independence, board size and board committees of the organization.

As per Ministry of corporate affairs, Clause no.8.1, board of directors are responsible for exercise of decisive control over operations of an organization. They are responsible for protection of rights of minority stakeholders in the company. The board holds the responsibility of doing ethical and compliant business along with controlling the opportunistic behaviours of top management of the organization. The presence of independent directors strikes a balance in the organization, as they are outside the control of top management and can take unbiased decisions in favour of all the stake holders (Zhang, 2012). Independent directors are entrusted with the task of reducing the agency problem in an organization. Their presence on the board of the organization imports affirmative shareholders values (Fuziet al. ,2016). Presence of outside directors on board brings in fresh ideas and experience to the board, as their suggestions are not influenced by promoters thought process (Kundal and Dawar, 2020). Diverse composition of board helps in better judgement making for the organization. The board independence is measured as the percentage of outside directors present on the board of the firm (Martin and Herrero ,2018). Board independence helps in creating an environment where the board has outside directors. These directors bring with them vast amount of expertise in various fields and help board in taking proper decisions. Moreover, these directors are not the part of internal management, hence are not directly influenced by CEO and can take their own decisions. The outside directors thereby play an important role in monitoring of functions of the banks (Weibin, 2007 ;Martin and Herrero, 2018).As per some researches ,board independence leads to higher profits and has positive relationship with firm's performance (Kudal and Dawar, 2020).The study done by Agrawal and Chadha(2005) showed that independent director's board existence reduces number of accounting frauds in a company, as they are more effectual in keeping track of the firm. Zhang(2012) in his research apprised the job of independent director in smooth functioning of an organization. As per the researcher , independent directors do not have any personal interest and are not directly in purview of promoters of the firm. Hence , the decisions taken by them are advantageous for all the shareholders. Board is responsible and accountable for overall functioning of an organization. The board of organization encompasses executive and non -executive directors. The executive directors play a key role in executing day to day affairs of the firm, on other hand independent directors are engaged in consultative role (Roy, 2016). The board composition imprints the positive image in the minds of stakeholders (Nam and Lum ,2006). Grameen Bank of Bangladesh had served as a good CG model for the entire world. Such a model emphasizes on transparency, accountability and integrity . The Grameen Bank has board comprising of experts in various fields and independent directors .All the above factors instils faith in the mind of people, which has led to an exponential growth (Zakir et al. ,2017). Studies done by Daada,W. (2020) show that board characteristics such as board size and board institutional members have negative relationship with bank profitability. Based on above studies we formulated the hypothesis as given below:

H1: Board Independence has positive influence on bank's profitability

Gender diversity of board plays very crucial role in CG. Recently emotional intelligence has strong influence on psyche of all the stake holders. Having women on board adds new ideas and perspectives. Women tend to reduce the communication barriers amongst the board members, which in turn help in better decision making (Joeckset .al ,2019). As per sec149(1) rule 11.1 under Companies Act 2013, all the listed companies have to compulsorily have one female director on their boards (Das, 2019; Dave 2019). Diversity of board not only helps in reducing the principal agent problem, but it also fosters positive image of the organization in the minds of stake holders (Hassan et.al 2015). In recent times there has been availability of pool of professionally qualified females. This in turn has led to broadening of talent search for boards of organizations. Women as nature, have greater eye for detailing and hence pay more attention to the fields of risk and audit in organization. This acumen is appreciated by stakeholders as it reduces corporate frauds and scandals (Mahalakshmi and Reddy,2017). On the basis of above literature, we develop our hypothesis. Susi and Lukason (2019) in their study stated that gender heterogeneity of the board does not lead to failure risk for the company.

H2: Woman director on board has positive influence on bank's profitability

Madhani (2015) in his study emphasized the role of board committee as internal CG mechanism. The three pivotal board committees namely remuneration committee, audit committee and nomination committee create transparency and accountability of board, leading to good CG practices. Increase in legal regulatory environment in changing financial world has resulted in performance of specialized functions by board committees such as compliance check, remuneration and financial reporting (Kolev et al. ,2019). As per studies done ,good corporate governance is supported by ethical leadership. Board plays a decisive role in establishment of such leadership (Agnihotri and Gupta ,2019). Board committee is very crucial for an organisation as it comprises of members who have varied experience and exposure in different fields. This expertise of committee members acts as useful tool for monitoring of management of board by the committee members (Darmadi,2011). Based on literature review ,we propose below written hypothesis:

H3: number of board committees have positive influence on bank's profitability

Certain studies have shown that number of board meetings have far reaching effect on CG of banks. Securities exchange board of India (SEBI,2000) as per its clause no. 49, stipulates minimum four board meetings per year (Tuteja and Nagpal, 2013).Board meetings act as an important platform for brainstorming and strategy formulation among the members of the board. Frequent board meetings provide better control over managers leading to good CG practices in the organization (Andres and Vallelado, 2008).Based on previous studies, the hypothesis is arrived.

H4: number of board meetings held per year have positive influence on bank's Probability

Institutional Investors are companies that buy and sell stock on behalf of their clients. They are mutual fund houses, insurance companies, pension funds, banks, to name a few. As per some studies lower proportion of institutional ownership leads to better CG of banks (Poudel and Hovey, 2013). Presence of institutional investors enhances the CG globally, as foreign institutional investors globalize the CG practices across the continents. Their presence enhances board independence (Alshabibi ,2021). Institutional investors by making use of their shareholder's right, affects the credibility of CG in an organization (OECD, 2011). Some studies show that release of more shares to institutional investors brings about market driven and close bank monitoring, which is useful for good CG (Reaz and Thankum, 2005). Institutional investors are potent source of low-cost funding for an organization. Therefore, good CG practice by an organization attracts institutional investors (Arora and Bodhanwala , 2018). As per the study done by Tomar and Bino (2012) , banks with higher institutional ownerships have better performance as compared to their peer groups. In another study ,Reaz and Arun (2005) found that equal treatment of all the shareholders brings about disciplinary changes in bank's governance. Apportioning of higher share to institutional investors encourages close monitoring of banking activities. Previous research studies help us conclude the below stated hypothesis. Kansil and Singh (2018) in their study suggest that there is interrelation between institutional ownership and performance of firm. The institutional owners are professionals who invest their clients funds in firms which give good returns and hence they must adopt good corporate governance practices.

H5: Institutional ownership in banks have positive influence on bank's profitability

Research Methodology

Sample Selection

To identify the effect of CG on banking system, we converged our study to Indian banking system. Indian Banking system has bouquet of public sector, private sector and small finance banks . Our data consisted 25 banks which are mix of private sector and small finance banks. The data for the study was collected from financial statements of the banks and their annual reports. The statistics were collected for the period of five years starting from 2016-17 to 2020- 2021. The study of Indian banks was taken into consideration because all the Indian banks have standardized banking practices and come under jurisdiction of Reserve Bank of India. Private sector and small finance banks were considered for the study as both these types of banks are technology savvy. Banks whose complete data was available in public domain were taken into consideration.

Variable Description

Our study consists of 8variables, out of which 5 variables pertain to CG, 1variable represents bank profitability and 2 variables were taken as control variables. The details under each category of variables are given below: -

Corporate governance Variables

In line with previous studies board independence, woman director, board committees, board meetings and institutional ownership, were taken as variables to measure CG .These explanatory variables were used to analyse their impact on bank's profitability. These values for these variables were taken from the Annual report of the banks for subsequent years. The references taken for Board independence are taken from Kudal&Dawar 2020; Zulfikar et al., 2020 and Yuniarti et al. , 2018. Woman Director was taken as variable from studies of Joecks et al., 2019; Das, 2019& Dave, 2019. The variable of Board Committee was included from previous studies done by Agnihotri& Gupta, 2019; Kolev et al. , 2019. Ownership Structure was taken as variable based on previous research work of Alshabibi, 2020; Daada et al., 2020 and Yuniarti et al., 2018.Variable Board meetings was taken from studies done by Tuteja& Nagpal, 2013.

Table No. I Variable Description

S.No.	Variable	Description	Type	Variable description
1.	Bo_ind	Board Independence	Independent	Proportion of Independent Directors on Board
2.	Woman_dir	Woman Director	Independent	No. of women directors on Board
3.	Bo _com	Board Committees	Independent	No. of board committees
4.	Bo _meet	Board meeting	Independent	No. of board meeting held per year
5.	Own _str	Ownership Structure	Independent	Percentage of shares held by institutional investors
6.	ROA	Return on Asset	Dependent	Ratio of net income of bank total average assets of bank
7	Firm _age	Firm Age	Control	Natural logarithm of age of bank from the date of commencement of business
8	Firm _size	Firm Size	Control	Natural Logarithm of total assets of bank

Profitability Variable

In banking sector performance is measured in terms of profitability. The profitability ratio helps in estimating the ability of company to generate revenues from either its sales or equity funds. In this study ROA was taken to measure profitability, based on previous studies. Return on asset was calculated as net income of bank divided by total average assets of bank. The data for ROA was taken from the financial statements of the respective banks. The variable ROA was taken from study of Almoneef & Samontaray, 2019.

Control Variable

Firm size which is natural logarithm of total of total assets in the balance sheet for each bank ,was taken as control variable. Also, the firm age, which is natural logarithm of age of firm calculated from the date of its incorporation ,is considered as second control variable. The firm size and firm age were calculated from the balance sheet of the bank.

Regression Model

The regression model applied in study is illustrated using below mentioned equation:

Profitability = β_0+β_1Bo_ind$_{it}$ +2Women_ dir$_{it}$+ β3 Bo_com$_{it}$ + β_4Bo_meet$_{it}$+ β_5Own_str$_{it}$+ β_6 Firm _age$_{it}$ +β_7 Firm _size$_{it}$+e $_{it}$

Profitability = Dependent variable (measured using ROA)

β_0 =Constant

β_1 to β_5= regression coefficients of CG variables

Bo_ind to Own_str = independent variables

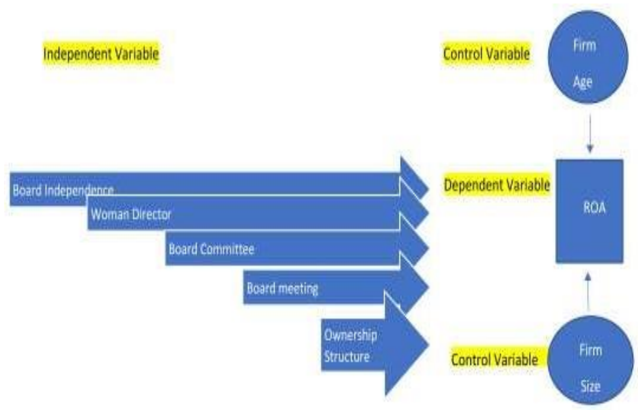
Firm_age and Firm_size= Control variables

e= error term

ROA= return on asset (net income of bank divided by total average assets of bank)

The conceptual research model for the study is given in Figure1. This model shows the impact of independent variables Board independence, woman director, board committee, board meeting and ownership structure on dependent variable return on asset. Firm age and firm size are control variables

Figure 1 Conceptual model



Result and Discussion

As the data has been taken over various time periods , hence we have used descriptive statistics and Ordinary Least square regression for scrutinizing it. E-VIEWS 12 was used as software for analysing the data set.

Table No.2. Descriptive Statistics of CG Parameters

Variables	Unit	Mean	Median	Maximum	Minimum
Dependent Variables					
ROA	%	0.009	0.008	0.045	-0.051
Independent variables					
Board independence	%	0.6048	0.600	0.909	0
Board meetings	Number	11.370	11.000	28 .000	4.000
No. of board committees	Number	10.950	12.000	20.000	3.000
Institutional ownership	%	0.365	0.375	0.950	0.000
Women Director	Number	1.420	1.000	3 .000	0.000
Control Variables					
Firm _size log (Total assets)	Natural	5.764	5.843	7.242	4.205
Firm _age	Natural	1.472	1.397	2.068	0.477

(Source Author's calculation)

The descriptive statistics of our study shows that the data of ROA for banks has a minimum value of -0.051 and maximum value of 0.045, with mean of 0.009. The data reflects that the independent directors on board vary between 0 to 0.909. The mean value of independent directors on board is 0.6048. Board meetings held by banks have maximum of 28 and minimum of 4 meetings. The mean value for board meetings held per year are 11.370, which is much above the threshold value of four board meeting stipulated by Reserve Bank of India (RBI,2001). The private sector banks have minimum board committees of 3 and maximum 20. The mean board committee number is 10.950. In ownership structure, we have considered institutional ownership. The minimum institutional ownership is 0 and maximum is 0.950. The mean value of institutional ownership is 0.36542. The women directors on board ranges from 0 to 3, with 1.420 being the mean figure. This figure of women director on board is higher than 1 as stipulated by Reserve bank of India (RBI ,2001). To identify the correlation amongst various variables we apply Pearson's Bivariate Correlation, which is presented in Table III.

Table No.3 Pearson's Bivariate Correlation

Variables	ROA	Firm Age	Firm _Size	Women_dirBo_indBo_meet.			Bo_com.	Own_s
ROA	1							
Firm_Age	-0.217*	1						
Firm _Size	-0.015	0.183*	1					
Women _Dir	0.178	-0.104	0.242**	1				
Bo_ind.	0.345**	-0.041.	0.008	0.248**	1			
Bo_meet	-0.113	0.362**	0.056	-0.056	-0.029	1		
Bo_com	-0.249**	0.336**	0.154	0.031	0.099	0.065	1	
Own_str	-0.012	0.065	0.578**	0.227	0.047	0.117	0.107	1

(Source: Author's calculation)
Note ** Correlation is significant at the 0.01 level (2-tailed)
* Correlation is significant at the 0.05 level (2-tailed)

The Bivariate Pearson's Correlation was applied on the variables of study. The research showed that ROA (significant at 5%) has a positive relation with board independence. This implies that Banks have high profitability, with increased proportion of independent directors on board .Pearson Bivariate correlation results show that board committee has negative (significant at 5%) impact on profitability of bank. It implies that with increase in number of board committees, the profitability of banks tend to decrease. Firm age , which is natural logarithm of age of bank ,also has negative (significant at 1%) relation with profitability of bank. Therefore banks which are older have low profitability in comparison to banks which are incorporated in recent times.

Econometric analysis

The data used in study was Panel data. As per Table 4. data multicollinearity check was done using Variation Inflation Factor (VIF). The results of the given study shows that VIF values for all the 8 variables range between 1.083 to 1.614. The mean value of VIF was 1.140. These results confirm that the given data set does not have multicollinearity.

Table No.4 Variation Inflator factor analysis for collinearity check

Variable	Tolerance (I/VF)	VIF
Bo_Ind	0.924	1.083
Women_Dir	0.853	1.173
Bo_Meet	0.849	1.178
Bo_Com	0.861	1.161
Own_Str	0.644	1.552
Firm_Size	0.620	1.614
Firm _Age	0.734	1.362
Mean VIF		1.140

(Source: Author's calculation)

In the study done by Zulfikar(2018), in case of panel data, parameter is estimated in regression analysis is done by using Ordinary Least squares. Also in Ordinary Least Square Regression, the F statistics shows the level of influence to response by the predictor variable.

In another study done by Patricia (2011) ,Panel data is the data which is collected over different period of times. Such data is analysed using the technique of Ordinary Least Square. (OLS). The two basic assumptions of the OLS estimators are that the data should not have serial correlation and heteroscedasticity.

Since the data used in study is panel data, we had option of using OLS (Ordinary Least Square) estimators to our model. The two basic assumptions of the OLS estimators are that the data should not have serial correlation and heteroscedasticity. To test the assumptions of heteroscedasticity, we performed Breusch Pagan test. The null hypothesis of Breusch pagan test states that there is homoscedasticity if p value is more than 0.05. For our research model ,the p value was 0.050, which implies that the data is homoscedastic. We had also applied Lagrange Multiplier (LM) test for checking Serial correlation of given panel data set. The null hypothesis of LM test states that there is no serial correlation in data if p value is greater than 0.05. The results of our model with ROA as dependent variable reflect that the p value of 0.070, which is more than0.05, hence we accept the null hypothesis. This implies that our data has no serial correlation Hence we have tested that our data does not have problem of endogeneity.

Table No.5 Diagnostic tests

Variable	Breusch Pagan test			Lagrange Multiplier (LM)Test		
	F value	Degree of freedom	p value	F Va lue	Degree of freedom	p value
ROA	2.086	7	0.050	1.836	9	0.070

(Source: Author's calculation)

As our data is homoscedastic with no serial correlation, we use Ordinary least square regression (OLS) estimator The data is regressed using OLS model with results shown in Table 6.

Table No.6 OLS Model

Variable	**Coefficient**	**tstatistics**	**p value**	**Hypothesis test**
Bo_Ind	0.032	3.970	0.000	**Accepted (H1)**
Women_dir	0.001	0.948	0.345	Rejected (H2)
Bo_ Com	-0.001	-2.805	0.006	Rejected(H3)
Bo_ Meet	-0.000	-0.492	0.623	Rejected (H4)
Own _str	-0.002	-0.307	0.759	Rejected(H5)
Firm _age	-0.003	-1.017	0.311	Rejected (Control variable)
Firm _Size	0.001	0.002	0.708	Rejected(Control variable)
F-statistics	4.585*			
R^2	22.752%			
Adjusted R^2	17.41%			

*p value- Significant Value at 5% and t- statistics significant at >1.96
(Source: Author's calculation)

The study demonstrates that the board independence had significant positive impact (p-on ROA, therefore we accepted the null hypothesis(H1) .It implies that increase in proportion of independent directors on board increases ROA of the bank. In the above models ,women director had positive (non-significant at 5%) impact on ROA. Hence, we rejected the null hypothesis(H2) . The OLS model shows that board committees ,have positive (non - significant effect)influence on ROA. Thus , we reject the null hypothesis (H3). In the research model stated above, board meetings had positive(non- significant) effect on ROA. Hence, null hypothesis(H4) was rejected. In case of institutional ownership structure , the model reflect positive and non- significant impact on ROA. Therefore, we reject the null hypothesis(H5). On the basis of above results , we conclude that for OLS model, board independence is the only

CG variables which have significant and positive impact on bank's profitability. It implies that with increase in board independence , there profitability of bank increases, as this factor lead to better monitoring of bank's activities.

The Control variables firm size and firm age have a non-significant positive impact on ROA, for both the above models . Also, contradicting the previous studies(Dey and Sharma, 2020) , the above model advocate that increase in firm size positively (non- significant) impacted bank's profitability. The R2 value for OLS model manifests that 22.752% of variation in ROA is explained by the independent variables. The. Hence ,OLS model is a better fit . The Fstatistics of the above model is significant, which implies that the models can satisfactorily explain the relationship between CG factors and ROA .

Conclusion

In this study we draw the inference that board independence has a positive impact on a bank's profitability. Independent directors decisions are not influenced bank's management and can take decisions freely. They can also make the banks more transparent and accountable, as there will be better monitoring by these directors, who are independent from management's sway .Hence , the presence of independent directors on board will enhance the performance of bank. The presence of greater number of independent directors on board can add to its diversity , as there will be a very good talent pool of experienced professionals. This study is in line with previous studies done (Kudal and Dawar ,2020; Gupta and Fields, 2009; Zhang , 2012) . Research done by Valentiet al.(2011) suggests that independent directors on the board of company lead to enhanced performance for the company.Also the company should rope in more qualified independent directors on board, as it is very important for good performance of the company. The Board committees are engaged in monitoring of Banks's activities .Women director, board meeting , board committee and ownership structure do not have influence on bank's profitability This study can be utilized by small finance and private sector banks for upscaling their CG parameters. This in turn can help these banks to increase profitability and have larger market share.

Scope and Practical Implications

In the coming times this study can be applied to public sector banks and a comparison can be made between them and private sector banks. It also contributes to previous literature, as there is no such study on CG for Small Finance Banks. This study can help small finance and private sector banks to onboard qualified professionals on their board , as this will give a positive impetus to performance of the firm. The independent directors are very experienced group from diversified sectors. They can add value to the banks through their expertise and experience and can also lead to better control over the banks. With upcoming of Multi-National Companies around the world , the role of corporate governance has become very crucial. These MultiNational companies work in various countries across the globe and presence of strong corporate governance practices will help in creating positive impact world-wide. Also, Nowadays lot of financial institutions are get globalized and listed on International Stock exchanges. Hence, strong foundations of corporate governance in these financial institutions can help in boosting economies of their as well as other nations.

Research limitations

Our research work has certain limitations. First, we had considered only small finance and private sector banks for this study. Second, various CG variables like CEO remuneration and promoter's shareholding were not taken into consideration. Third, the future studies can have large sample size .

Originality Value : This study is one of the maiden studies done to understand the impact of cooperate governance on small finance and private sector banks in India

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