

# IS CORPORATE GOVERNANCE IMPACT ON SHAREHOLDERS' WEALTH CREATION? A COMPARATIVE STUDY ON PUBLIC SECTOR AND PRIVATE SECTOR BANK'S IN INDIA

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**Abstract:** Corporate governance is very important to enhance transparency, accountability and financial performance of the banking sector. This paper studies the effect of corporate governance factors on Return on Equity (ROE) and compares their efficiency between public and private sector banks in India and also to find out the relation between corporate governance practices and financial performance. The study is based on secondary data collected from the annual reports of five public sector banks and five private sector banks for the period 2020-21 to 2024-25. The data are analysed using descriptive statistics, correlation analysis and multiple regression analysis. The results show that governance variables are significantly related with ROE in private sector banks whereas there is no significant relationship in public sector banks. Further, it shows that governance factors affect ROE in private banks jointly but not in public banks. The study concludes that the corporate governance mechanisms are more effective in improving shareholders returns in private sector banks. There is a suggestion that public sector banks should improve their governance practices and committee effectiveness to improve their financial performance and shareholder value.

**Keywords:** Corporate Governance, Return on Equity, Public Sector Banks, Private Sector Banks, Financial Performance, Shareholder Returns..

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## 1. INTRODUCTION

Corporate governance plays an essential function to ensure transparency, accountability and effective decision making in banking institutions. In recent years it has become a major driver of organizational performance and shareholder wealth. Especially in the banking sector, where public trust and financial stability are critical. Robust governance mechanisms such as board independence, audit monitoring and transparent disclosure practices can align managerial actions with shareholders' interests and mitigate agency conflicts. Bezawada and Adaelli (2020) suggested that sound governance structures lead to better performance of banks through the strengthening of monitoring mechanisms and the improvement of operational efficiency. Similarly, Bhatt and Bhattacharya (2021) stressed that sound governance practices enhance long-term value creation and investor confidence.

Shareholder return, through dividends and other means of market value growth, is an important measure of corporate success. Gupta and Mahakud (2021), and Pandey and Singh (2023) found that the better governance standards of firms, the better their financial performance and also the higher they are valued in the market. In Indian



banking context, the importance of governance is higher as public sector and private sector banks work under different ownership and managerial structures. Chaturvedi and Marwah (2024) and Bhatia (2024) observed that governance quality has a profound effect on profitability and competitiveness of all banks.

The Indian banking industry has seen major regulatory and technological changes post the mega merger in 2020, leading to better governance reforms. Agarwal and Kumar (2024) observed that good governance practices improved resilience and financial stability, while Lal et al. (2023) emphasized their positive influence on profitability. Hence, it is very necessary to study the relationship between corporate governance and shareholders' returns in public and private sector banks to understand the role of governance in creating shareholder's value and ensuring sustainable banking performance in India.

## **2. REVIEW OF LITERATURE**

After going through the research process this study analysed following literatures of different authors related to banking sectors from 2020 to 2024.

Bezawada and Adaelli (2020) investigated the role of corporate governance in Indian banks and found that well-structured governance mechanisms lead to enhanced efficiency and better financial performance.

Gupta and Mahakud (2021) investigated the impact of governance practices on firm value and discovered that good governance improves market performance and boosts shareholder wealth creation.

Kumar and Singh (2022): This study examined governance features and concluded that independent monitoring mechanisms have a positive impact on profitability and organizational effectiveness.

Pandey and Singh (2023) The study examined the quality of governance and disclosure practices. The study concluded that transparent governance frameworks lead to better financial performance.

Bhatia (2024) The study examined the impact of governance mechanisms on the performance of banks and found that strong governance structures support profitability, competitiveness and sustainable growth.

## **3. RESEARCH QUESTIONS**

Does corporate governance factors associated with the financial performance (Return on Equity) of public and private sector banks in India?

To what extent do corporate governance factors contribute to variations in Return on Equity (ROE) among Indian banks?

## **4. OBJECTIVES OF THE STUDY**

Governance attributes like board composition, board independence, audit committee effectiveness and ownership structure are seen as important determinants of financial performance. Past research shows that there is a stronger governance practices which contribute to improved profitability and enhanced shareholder returns (Bezawada & Adaelli, 2020; Pandey & Singh, 2023; Bhatia, 2024).

By analysing the past study, this study considers following objectives like

To examine the relationship between corporate governance practices and financial performance of public and private sector banks.

To examine the impact of corporate governance factors on Return on Equity of Indian banks.

## **5. HYPOTHESIS DEVELOPMENT**

Effective governance mechanisms increase transparency, accountability and managerial efficiency thereby leading to better financial performance. Bezawada and Adaelli (2020) found a positive relationship between governance structures and bank performance. Pandey and Singh (2023) found that higher levels of governance and disclosure practices increase the firm's value. Bhatia (2024) emphasized the need for good governance to enhance the profitability and competitiveness of Indian banks. As per the past study and according to the objectives, this study has constructed following hypothesis.

H<sub>01</sub>: There is no significant association between corporate governance factors and the financial performance of public and private sector banks.

H<sub>11</sub>: There is a significant association between corporate governance factors and the financial performance of public and private sector banks.

H<sub>02</sub>: Corporate governance factors do not significantly influence Return on Equity in Indian banks.

H<sub>12</sub>: Corporate governance factors significantly influence Return on Equity in Indian banks.

## 6. METHODOLOGY OF THE STUDY

A purposive sampling techniques are used for this study to select the sample. This study considers top 5 public sector banks and private sectors banks in India as per their market capitalizations as on 1.10.2025. The data are collected from the secondary sources over the period of 5 years from 2020-21 to 2024-25. Various sources like annual reports of sample banks, moneycontrol, trendline, screener etc are used for this study. This study considers various meetings as governance factors i.e. Board meetings, Audit Committee meetings, Risk management Committee and Stake holder relationship Committee and Return on Equity as performance factor. To make an uniformity between public and private sector banks this study considers 4 governance factors out of various factors. To justify the objectives this study used statistical tools like descriptive statistics, correlation matrix and regression analysis and independent sample t test.

**Table-1**

**Variables Descriptions and measurement**

Sl. No	Variables	Descriptions	Measurement
1	Dependent	Return on Equity (ROE)	Net Income/ Shareholders' Equity ×100
2	Independent	(BM) Board Meetings (BM)	Total No. of meeting during the study period
3		Audit Committee Meetings (ACM)	
4		Risk Management Committee (RMC)	
5		Stake holder relationship committee (SRC)	

Source: Self Compiled

## 7. MODEL DESCRIPTION

This model is constructed, to study the impact of banks' corporate governance factors on Return on Equity.

$$ROE = \beta_0 + \beta_1 BM + \beta_2 ACM + \beta_3 RMC + \beta_4 SRC + \epsilon$$

Where,

$\beta_0$  = Intercept

$\beta_1, \beta_2, \beta_3, \beta_4$  = Coefficients

BM, ACM, RMC and SRC = Independent Variables

ROE = Dependent Variable

$\epsilon$  = Error.

## 8. DATA ANALYSIS AND INTERPRETATIONS

The data are collected from the annual reports of top 5 public sector and private sector bank's in India from 2020-21 to 2024-25.

**Table-2**

**Descriptive Statistics**

		Private Sector Banks				Public Sector Banks			
Factors	N	Min.	Max.	Mean	Std. dev.	Min.	Max.	Mean	Std. dev.

BM	25	1.79	2.64	2.15	0.17	2.30	3.09	2.71	0.19
ACM	25	1.95	2.30	2.17	0.11	2.08	3.14	2.56	0.24
RMC	25	1.61	2.08	1.90	0.14	1.39	2.30	1.87	0.26
SRC	25	1.10	1.39	1.33	0.12	0.00	1.79	0.79	0.65
ROE	25	-12.50	19.80	13.90	6.37	2.70	20.32	14.80	5.02

Source: Self-Compiled

Table no.2 indicates that the variations in governance practices and financial performance between private and public sector banks. Public sector banks have higher average board meeting frequencies i.e 2. 71 and Audit Committee Meetings i.e. 2. 56 than private sector banks. Whereas, private sector banks reported a higher average number of stakeholder relations committee meetings i.e.1. 33. The average values of Risk Management Committee meetings are almost identical in the two sectors. mean values of Risk Management Committee meetings are nearly identical in both sectors. With respect to profitability, public sector banks achieved a marginally higher average Return on Equity i.e. 14. 80 compared to private sector banks i.e. 13.90.

**Table-3**

**Correlation Matrix of Private Sector Banks**

		BM	ACM	RMC	SRC	ROE
<b>BM</b>	Pearson Correlation	1				
	Sig. Value					
<b>ACM</b>	Pearson Correlation	0.852**	1			
	Sig. Value	0.000				
<b>RMC</b>	Pearson Correlation	0.872**	0.960**	1		
	Sig. Value	0.000	0.000			
<b>SRC</b>	Pearson Correlation	0.530**	0.692**	0.666**	1	
	Sig. Value	0.006	0.000	0.000		
<b>ROE</b>	Pearson Correlation	0.655**	0.679**	0.702**	0.497*	1
	Sig. Value	0.000	0.000	0.000	0.011	
*. Correlation is significant at the 0.05 level (2-tailed).						
**. Correlation is significant at the 0.01 level (2-tailed).						

Source: Self-Compiled

Table no.3 shows the Correlation analysis of private sector banks which indicates that all corporate governance variables are positively associated with return on equity (ROE). Risk Management Committee (RMC) meetings, audit committee meetings (ACM) and board of directors (BM) meetings have the strongest relationship with ROE, where the R values are 0.702, 0. 679 et 0. and 0. 655 respectively. Stakeholder Relationship Committee meetings (SRC)

show a moderate positive association with ROE ( $r = 0.497$ ). Here all p-values are below 0.05, hence the null hypothesis is rejected, which indicates that corporate governance factors are significantly related to the ROE of private sector banks.

**Table-4**

**Correlation Matrix of Public Sector Banks**

		<b>BM</b>	<b>ACM</b>	<b>RMC</b>	<b>SRC</b>	<b>ROE</b>
<b>BM</b>	Pearson Correlation	1				
	Sig. Value					
<b>ACM</b>	Pearson Correlation	.449*	1			
	Sig. Value	.024				
<b>RMC</b>	Pearson Correlation	-.202	.133	1		
	Sig. Value	.334	.527			
<b>SRC</b>	Pearson Correlation	-.021	-.559**	-.278	1	
	Sig. Value	.920	.004	.179		
<b>ROE</b>	Pearson Correlation	-.151	.154	.307	.114	1
	Sig. Value	.471	.463	.135	.587	
*. Correlation is significant at the 0.05 level (2-tailed).						
**. Correlation is significant at the 0.01 level (2-tailed).						

Source: Self-Compiled

Table no.4 shows the correlation results of public sector banks in connection with the corporate governance variables and Return on Equity (ROE). Board of Directors (BM) Meetings show a weak negative relationship with ROE i.e. -0.151, while Audit Committee Meetings (ACM), Risk Management Committee meetings (RMC) and Stakeholder Relations Committee Meetings (SRC) show weak positive relationships that are statistically insignificant ( $p > 0.05$ ). Therefore, at 5% level of significance, the null hypothesis is accepted indicating no significant association between the selected governance factors and ROE in public sector banks.

**Table-5**

**Regression Results of Return on Equity (Private sector Banks)**

	R	R <sup>2</sup>	Adj. R <sup>2</sup>	Std. Error	D. W test
Model-1	0.709 <sup>a</sup>	0.503	0.403	4.92258	1.729
<b>ANOVA<sup>a</sup></b>					
Model-1	Sum of Squar	d.f	Mean Squar	F	P- value
Regression	490.262	4	122.566	5.058	0.006 <sup>b</sup>

	Residual	484.637	20	24.232		
	Total	974.899	24			
<b>Coefficients<sup>a</sup></b>						
		<b>Unstandardized Coefficient</b>	<b>Std. Error</b>	<b>Standardized Coefficient Beta</b>	<b>T</b>	<b>P- value</b>
Model-1	(Constant)	-46.955	29.658		-1.583	0.129
	BM	7.214	11.982	0.198	0.602	0.554
	ACM	-1.315	34.770	-0.022	-0.038	0.970
	RMC	22.534	27.342	0.501	0.824	0.420
	SRC	3.997	11.941	0.074	0.335	0.741

Source: Self-Compiled

Table no. 5 shows that the Regression analysis of private sector banks which shows that the corporate governance variables jointly explain 50.3% of the variation in Return on Equity i.e.  $R^2 = 0.503$ . The overall regression model is statistically significant where p value is 0.006, indicating that the selected governance factors collectively influence ROE. However, none of the individual variables like board of directors (BM) meetings, audit committee (ACM) meetings, risk management committee (RMC) meetings, and stakeholder relations committee (SRC) meetings have a significant independent effect on ROE, as their p values exceed 0.05. Therefore, at the 5% significance level, the overall null hypothesis is rejected. Hence there is a significant impact of governance factors on ROE.

**Table-6**

**Regression Results of Return on Equity (Public sector Banks)**

	R	R <sup>2</sup>	Adj. R <sup>2</sup>	Std. Error	D. W test	
Model-1	0.528 <sup>a</sup>	0.279	0.135	4.66547	2.071	
<b>ANOVA<sup>a</sup></b>						
Model-1		<b>Sum of Squar</b>	<b>d.f</b>	<b>Mean Squar</b>	<b>F</b>	<b>P- value</b>
	Regression	168.414	4	42.104	1.934	.144 <sup>b</sup>
	Residual	435.332	20	21.767		
	Total	603.746	24			
<b>Coefficients<sup>a</sup></b>						
		<b>Unstandardized Coefficient</b>	<b>Std. Error</b>	<b>Standardized Coefficient Beta</b>	<b>t</b>	<b>P- value</b>

Model-1	(Constant)	-4.617	18.308		-0.252	0.803
	BM	-8.316	6.077	-0.315	-1.368	0.186
	ACM	10.803	5.561	0.526	1.943	0.066
	RMC	6.028	3.968	0.309	1.519	0.144
	SRC	3.775	1.894	0.487	1.994	0.060

Source: Self-Compiled

Table no.6 indicates that the regression results of public sector banks which indicate that the selected corporate governance variables explain 27. 9% of the variation in Return on Equity i.e.  $R^2$  value is 0. 279. However, the overall model is not statistically significant where p value is 0. 144, which suggests that governance factors do not collectively influence ROE. Board Meetings (BM), Audit Committee Meetings (ACM), Risk Management Committee meetings (RMC), and Stakeholder Relationship Committee meetings (SRC) have p-values greater than 0. 05, indicating no significant individual effect on ROE. Therefore, at the 5% significance level, the null hypothesis is accepted, confirming that the selected governance variables do not significantly affect the ROE of public sector banks.

## 9. CONCLUSION

The results reveal notable differences in the relationship between corporate governance practices and Return on Equity (ROE) across private and public sector banks. Board Meetings, Audit Committee Meetings, Risk Management Committee Meetings and Stakeholder relations committee meetings in private sector banks had significant positive associations with ROE and the overall regression model confirmed that these governance factors collectively influence shareholder returns. Relationship Committee Meetings has a significant positive relationship with ROE. The overall regression model proved that these governance variables together impact shareholder returns. On the other hand, the public sector banks showed a weak and statistically insignificant association between the governance variables and the ROE. The regression model indicated that these variables are not statistically significant impact on the financial performance. In general the results suggest that the corporate governance mechanisms are more effective to improve shareholder returns in private sector banks than public sector banks.

## 10. LIMITATIONS OF THE STUDY

The study is limited to a sample of only 5 public sector banks and 5 private sector banks . This may limit the generalizability of the findings to the entire Indian banking sector.

The study looks at only some meetings as corporate governance variables and other governance factors that may affect ROE are not considered.

The study is limited to the period 2020–21 to 2024–25, and therefore, results may not reflect the long-term effect of corporate governance practices on shareholder returns.

## 11. SCOPE FOR FURTHER STUDY

Future research could include a larger sample of public, private, foreign and small banks to provide a more broad understanding of the relationship between corporate governance and shareholder returns in the Indian banking sector.

Future research can include other governance variables such as board independence, board diversity, ownership structure, audit committee independence, and CEO characteristics for further insights into their influence on financial performance.

Researchers can extend the study timeframe and employ advanced analytical techniques such as panel data analysis or structural equation modeling to explore the long-term impact of corporate governance practices on shareholder value and bank performance.

### Conflict of Interest

The authors affirm that they have no competing interests with regard to this study.

### Ethics Approval

This study does not require ethical approval, and all participants gave their informed consent.

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