International Journal of Computer Information Systems and Industrial Management Applications
ISSN 2150-7988 Volume 18(4s) 2026 pp. 1161-1173
https://doi.org/10.70917/ijcisim-2026-2630
Article

AN ASSESSMENT OF THE IMPACT OF CORPORATE GOVERNANCE PRACTICES ON THE FINANCIAL PERFORMANCE IN THE BANKING SECTOR

Megha Mandal[1], Ritu Wadhwa[2], Priya Solomon[3]

[1]PGDAV College, University of Delhi. e-mail id- megha.mandal1506@gmail.com
[2]Amity University, Noida.
[3]Universal Business School, Mumbai.

Abstract: Corporate governance plays a vital role in shaping financial performance and investor trust in the banking sector by influencing decision-making, risk management, and transparency. This study examines the impact of corporate governance practices on financial performance and assesses their effect on investor trust, focusing on SBI and BoB. A quantitative research approach was adopted, with data collected from 300 investors in the Delhi NCR region between September 2024 and December 2024, including bank customers actively investing in SBI and BoB stocks. A structured questionnaire was used to gather primary data, while secondary data was sourced from bank reports, regulatory filings, and governance disclosures. Structural Equation Modeling (SEM) and regression analysis were applied to evaluate relationships between corporate governance, financial performance, and investor trust. The findings revealed a statistically significant positive relationship, indicating that strong governance frameworks enhance financial stability, profitability, and investor confidence. The study aligns with previous research, confirming that effective governance mechanisms, such as board independence, audit committee effectiveness, and financial transparency, contribute to financial growth and trust in banking institutions. These results have practical implications for banks, regulatory authorities (RBI, SEBI), and investors, emphasizing the need for stronger governance policies, enhanced risk management frameworks, and ethical leadership to ensure financial sustainability and market stability. Future research could explore digital governance innovations, ESG integration in banking governance, and cross-country governance comparisons.
Keywords: - Corporate governance, financial performance, Investor trust, Banking sector, SBI, BOB

1. Introduction

Corporate governance has become a critical determinant of financial stability and investor confidence, particularly in the banking sector. Given the banking industry's systemic importance, effective governance structures ensure financial transparency, risk management, and regulatory compliance, thereby influencing both financial performance and investor trust. In the aftermath of financial crises and corporate scandals, governance mechanisms in banks have received heightened scrutiny, as weak governance can lead to severe economic disruptions and loss of investor confidence (Pevzner, Xie, & Xin, 2012). The banking sector, due to its reliance on public trust and financial integrity, presents a unique case for studying the impact of corporate governance on financial performance and investor behavior.

Banks are highly regulated and hence the relationship between corporate governance and financial performance in banks is considered particularly significant. Governance mechanisms have an important role in keeping banks under strict oversight and financial discipline, even as the banks operate under extremely strict governance, and the banks function under the strong framework of governance. The research shows that banks with independent boards, audit committees with strong performance evaluations, and strict disclosure policies have better ROE and ROA than other

Copyright: © 2026 by the authors

banks (Aggarwal, 2013). It has been shown that there is an influence of governance factors such as CEO duality, board independence and institutional ownership on profitability and financial efficiency in the banking sector (Kiradoo, 2019). Despite this, governance reforms have been introduced by banks such as SBI, BOB, in India to enhance financial performance, but how these reforms translate into improved financial outcomes is yet to be investigated (Tamara, Haninun, & Aminah, 2024).

Corporate governance also plays a role in readjusting investors' trust in banks. Although other sectors rely on confidence in depositor and investor confidence, banking depends more on this confidence, making governance quality a key determinant of investment. Banks are particularly sensitive to governance disclosure, risk mitigation strategies and financial transparency because banking failures can have far reaching economic consequences (Ryan & Buchholtz, 2001). There is empirical evidence that banks with more solid governance framework have a higher investors' confidence as they are believed to better manage risk and to be more compliant to regulatory requirements (Lee & Shailer, 2008). But banking governance failures, be it fraudulent lending and financial misreporting, had earlier cost investors dearly and eroded public confidence (Shahid & Abbas, 2019). For SBI and Bank of Baroda, the common investor is still highly dependent on the effectiveness of governance mechanisms to safeguard and increase the investment. It is important to understand how governance policies impact investor perceptions in these banks to improve confidence in the financial sector of India.

This study attempts to achieve two main goals: (1) identifying the impact of corporate governance practices on financial performance in the banking sector through studying the two leading banks in the Indian banking sector, the SBI and BOB; and (2) determining the impact of corporate governance practices on investor trust, using common investors who invest in these banks. This study aims to provide a comprehensive analysis of how governance affects financial stability and investors' behavior in India's banking sector through interviews with bank investors and review of empirical research. This research identifies best governance practices that can help in making the ongoing discourse on strengthening the corporate governance framework and strengthening the Indian banking system, robust and investor confidence engendered.

2. Review of literature

How a company sets up and composes their board of directors has a big impact on the financial performance of the company. It is board's job to monitor management, make strategic decision and confirm that the corporate governance best practices are followed as should be. A study has been shown that increased oversight and divers expertise on the board improve the financial performance for firms with a larger board size and a greater percentage of independent directors (Aggarwal, 2013). Independent directors do not have a vested interest in the company, and thus their decisions can be made without a conflict of interest or mismanagement. Besides, they act as a check against decisions made by executive, making sure that there are no discrepancies between corporate policies and shareholders interests. Gizatullin (2008) conducted a meta analysis and this supports the argument that independent boards also produce positive returns on equity (ROE) and on assets (ROA). So it implies that board independence has a positive impact on the effectiveness of governance, which in turns helps the overall financial performance and investor confidence.

Nevertheless, the board leadership structure is also critical for corporate performance, especially in the case of CEO duality, where the CEO is also the chairperson of the board. Corporate governance has been a contentious issue on this governance model. As CEO duality is related to a concentration of power, accountability is weakened and oversight mechanisms are undermined, some studies show that it negatively affects financial performance (Azam, 2016). The board chair also happens to be a CEO can have an excessive influence on board decisions, making personal interests a top priority over those of shareholders. Yet other findings show CEO duality can lead to more decisive leadership, more rapid decision making, higher efficiency (Dănescu, Spătăcean, Popa, & Sirbu, 2021). Being in such a critical position may be beneficial for these firms that rely on strong leadership to manage uncertainty and the implementation of strategic initiatives in the market. The mixed results suggest that the need is for strict structures of governance in different industries that sat between strong leadership and effective oversight.

Another essential part of the corporate governance is that the audit committee is independent. As such, one of the audit committee's major functions is in overseeing the reporting of financial statements, risk management as well as compliance with the regulations. A research in IT sector proves that companies with independent audit committees have better financial performance because of better risk management and regulatory compliance (Tamara, Haninun& Aminah, 2024). A study on the financial sector also discovered that audit committee independence was the most influential factor on profitability (Kiradoo, 2019). The presence of strong audit committees helps enhance investor confidence and protect the shareholder interests by firms that are more able to identify and prevent financial irregularities. This underscores the need for regulatory frameworks that insure for the protection of financial integrity by mandating independent audit committees. Another important factor regarding financial performance is transparency of corporate governance. Better corporate governance disclosure practices are associated with better financial performance of firms. There is a strong tendency in the literature to support transparent reporting that lowers information asymmetry, builds investor confidence and results in better market valuation (Abdo & Fisher, 2007). Those involved in investing, such as owners, investors, other lenders and employees, rely on accurate financial reports and governance disclosures to understand firm performance and to assess risk exposure. A study of the Indian financial sector revealed that disclosure levels have a positive relation to financial indicator such as earnings per share and return on capital (Sriram &Kolmkar, 2015). These findings indicate that it is time for firms to establish sound disclosure policies that allow stakeholders to have access to the necessary and reliable information.

Corporate governance requires institutional investors to enforce the standards. They exercise influence not just at the firm but also in the broader market governance. The result of a study analyzing financial institutions in Indonesia found that financial performance of firms with higher institutional ownership is superior (Tamara et al., 2024). And an institution, like pension fund, asset management firm, etc. demands greater accountability, better governance, better ethical leadership. Their presence imposes governance framework requirements on companies to achieve better decisions and risk management. This also helps reduce agency conflicts between managers and shareholders, and hence improve firm performance. Corporate governance does not uniformly have impact on financial performance across all economies. The degree of freedom in legal and economic environment determine the strength of governance mechanisms. A global meta analysis confirms the general positive impact of governance mechanisms on a firm’s financial performance but shows that the impact is moderated by the political and economic conditions of a country (Gizatullin, 2008). Corporate governance may dilute the benefits in developing economies due to weak regulatory frameworks and managerial opportunism accompanied with reduced investor protection. On the other hand, in the developed economies with sturdy legal enforcement, the corporate governance mechanisms are more effective and that results in better financial outcomes. The point is that there is a huge disparity and that requires tailored governance reforms that are tailored to country specific challenges.

There are some industries with their own governance-financial performance dynamics. A canonical example is research on the Chinese electronics industry that demonstrated firms that feature superior governance mechanisms performed better financially notwithstanding imposing the kind of spectacular growth strategies (Hsiao & Zhang, 2023). This suggest that governance framework is a source of stability, as well as a strategic direction even for rapidly changing industry. Likewise, in studies on the banking sector governance factors including risk management and board oversight have high impact on financial stability (Oino& Itan, 2018).

Since the banking industry is subject to high levels of regulation and risk exposure, the governance mechanisms are very important in ensuring compliance and protecting the investors’ interests.

Military coups are mainly carried out in nations with weak corporate governance frameworks that do not value transparency and disclosure. To make informed decisions, investors use financial reports, disclosures of risk and statements of governance. The research shows that firms with greater governance transparency are helped by the fact that stronger investor confidence leads to a reduction of information asymmetry and possible market manipulation (Ryan, W. K., & Buchholtz, A. K., 2001). Increased disclosure requirements, including those that operate in Australia, have also been observed to increase confidence among institutional, as well as individual, investors (Lee & Shailer 2008). The finding of these, and similar findings, point to the significance of regulatory policy that requires the disclosure of comprehensive governance as a means to build investor confidence.Investors take corporate governance into account when making decisions. Li, Lai and Tang (2016) also studied the effect of corporate governance standards and found that there is positive correlation between the degree of investor confidence and firms with high level of corporate governance standards especially in countries where the markets are regulated. Their study of Chinese firms confirmed that well governed firms received more investors and paid less stock volatility, suggesting that good governance structures help to okay markets to remain stable.

An investor trust is created by a well structured board, specifically with a strong proportion of independent directors. Board members who are independent serve in an improved oversight of the risk of fraudulent activities or unethical management decisions. The influence of corporate governance on investor confidence in stabilized financial institutions was studied and found that board independence plays a significant role in how investors perceive the firm stability (Hammond & Opoku, 2023). This shows that governance structures that allow for board independence actually raisesconfidence of investors on a firm's long future sustainability. While corporate governance refers to a regulatory compliance, it goes further beyond the ethics in management practices. Companies with governance structure of sound financial control, ethical leadership and social responsibility are favored by the investors. Consistent with this, studies have shown that such governance failures as the Enron and WorldCom scandals lead to significant losses of investor trust and investor losses as well as large market volatility (Casadesus-Masanell&Spulber, 2007). This calls for corporate governance framework integrated with ethical principles and corporate responsibility.

Positive reactions have been shown to investors with respect to governance reforms in the form of tighter financial reporting standards and board restructuring. Investor confidence in Australian markets has been enhanced by a study on increasing board independence, improving governance disclosures and making CEOs and CFOs accountable for financial integrity (Lee & Shailer, 2008). The positive impact of the changes to regulatory that emphasizes corporate governance is emphasized in these findings. The trust of the investor extends not only to individual companies but also to the entire market. Weak corporate governance in the financial institutions was responsible for the market crises, like the 2008 financial crisis. Strong governance policies in financial markets contribute to stabilizing investor sentiment and enhancing long term confidence on the system (Pevzner, Xie, & Xin, 2012). The fact that it underscores the importance of regulatory oversight so as not to have governance failures that could render financial markets unstable. Governance structure in developed markets are much more robust than those in emerging markets. Since governance practices are less regulated in these markets, investor trust in them is more sensitive to governance practices. Investors' confidence is a function of governance and it is found that the higher the governance credibility, the higher is the investment in Pakistan and India (Shahid & Abbas, 2019). Therefore, if related governance practices are strengthened in emerging economies, it will facilitate attracting investment and ensuring market stability.

Financial markets, like all other forms of markets, are as strong as the trust that investors have in them. Investors perceive a company's governance framework based on corporate governance mechanisms such as board independence, transparency in disclosure, and institutional participation, and then make response to a company according to these perceptions. There is extensive research in recent research that establishes linkage between governance practice and investor trust, it is important to have a structured governance policy in building trust among stakeholders. Corporate governance acts as an essential guard to the investor's trust by providing means of transparency and the disclosure of accurate information. In a very exhaustive study, Moers, Peek, and Vorst (2021) study how investor trust develops through the post IPO period.

The finding is that corporate disclosure does not engender trust immediately, but takes time for trust in corporate disclosure to build up as firms build credibility. It finds that analysts and institutional investors act as facilitators of trust, thus suggesting that firms should keep up their transparent reporting practices. Strauss (2018) also further emphasizes the role of the financial disclosure in investor decision making by using a conceptual framework for trust in investor relations. The study stresses the necessity of an open communication, continuous engagement with investors and ethical management in order to create an investor confidence. The similarity of these two studies is that long term governance strategies are vital, based on the fact that trust can only be built by doing something on a regular basis and not only by being regulatory compliant once.

It also has an effect on shaping investor sentiment in the board governance process. Hammond and Opoku (2023) therefore examine how corporate governance mechanisms mediate investors' confidence in financial institutions in Ghana and Nigeria. Goverance structure helps investors trust the company indirectly as it is designed to maintain stability and continuation of the firm. The researchers find that investors aren't relying on governance reports directly but they may think that companies with good governance are less risky and more reliable. As with Turkish firms, Saygili, Saygili, and Ţaran (2021) study and find that shareholder protection policies positively impact investor sentiment. But they said board governance had varying effects, depending on the industry. While independent directors and board oversight made some sectors more confident, overly rigid structures made others less flexible. The nuance here is that board governance as a whole increases trust but the effectiveness is context driven, i.e., industry norms and regulatory frameworks.

The last factor that is influenced by corporate governance is market stability. Al-Ibbini and Shaban (2021) research how governance mechanisms lead to increase investor confidence and decrease the maneuverability of the stock price. According to their findings, stock volatility is lower for firms with strong governance structure, which implies that both good corporate governance and market stability. This is the same study by Ayoola et al. (2023) on Nigerian banks. Based on the results of the work, they found that corporate governance mechanisms become particularly important during financial crises as they provide to investors reassurance about a firm's financial health and risk management practices. These studies can then suggest that corporate governance has a stabilizing role by damping down investor panic during market downturns.

Corporate governance and investor trust are rudimentary to institutional investors. In Dasgupta, Fos and Sautner (2020), institutional investors' impact on governance structures is explored. The result shows that firms with the active involvement of institutional investors have better governance practices and thereby get more value from institutional investors. For example, institutional investors with long term stakes tend to push for transparency, ethical leadership, compliance with the regulations and these are conducive into investor confidence. Alhajri and Al-Shebli (2024) also support this further by looking into the role of institutional investors in enforcing governance standards in Kuwait. Their study shows that institutional investors play the role of a watchdog and this improves market credibility by rendering corporate accountability. Therefore, these findings highlight the rising role of institutional investors in deciding about corporate governance policies and consequentially in creating investor's confidence.

Investment decision making is also a critical factor of corporate governance. Shahid and Abbas (2019) investigated the effect of corporate governance on investor confidence in Pakistan and India. According to the researchers, investors understand that firms with great governance frameworks are more stable and less likely to be part of financial manipulations, hence attracting more investments. This is consistent with Issa (2023) who investigated whether corporate governance disclosures are sufficient enough to help investors. The study demonstrates that governance transparency encourages better confidence in investors, but more importantly it indicates that governance alone cannot eliminate investments risks. This implies that while investors do find governance important when making their decisions, other financial and market related factors are also taken into account. We have suggested the following hypotheses from the review of literature.

H1- corporate governance practices positively impact financial performance of an organization.

H2-corporate governance practices enhance investor trust in an organization.

3. Research Methodology

In this study, the quantitative approach was adopted to analyse the influence of corporate governance practices on financial performance of investor trust within the Indian banking sector, more specifically in SBI and BOB.

The data for this study was primary, which was collected from 300 individual investors investing actively in stocks of SBI and BoB. A large portion of these investors were also customers of these banks, thus they were also a relevant respondent for evaluating the effect of governance practices on financial performance and investor trust. Therefore, bank branches were approached to reach these investors which are made up of individuals that interact with banking services and stock investments. Data was collected between September 2024 to December 2024 in Delhi NCR region. Investor perceptions regarding corporate governance transparency, financial performance, and corporate governance framework confidence were gathered through the use of a structured questionnaire. Supplementing the empirical analysis was secondary data that were collected from bank, annual reports, governance disclosures, regulatory filings, and financial statement.

The dependent variable in this study was the tendency of industries to prey on friendly companies, which was determined by the corporate governance practices such as independence of the board, effectiveness of the audit committee, dual chief executive officer structure, financial disclosure policies, and regulatory compliance. Financial performance and investor trust assessed based on their confidence in financial disclosures, governance transparency, risk mitigation measures were taken as dependent variables.

Structural Equation Modeling (SEM) and regression analysis were done to analyse the collected data. The relationships between corporate governance and financial performance and investor trust were investigated using SEM in order to assess multiple dependent relationships. In an attempt to clarify the strength of the corporate governance on the financial performance and investor trust, we conducted regression analysis. An analysis of correlation was also performed to validate the significance of the results, as well as descriptive statistics, hypothesis testing and

confidence interval estimations. Thanks to these statistical methods, banking sector outcomes were robust and reliable in regards to how governance structures impact them.

4. Result

Models Info

Estimation Method	ML
Optimization Method	NLMINB
Number of observations	300
Free parameters	66
Model	Corporate Governance Practices=~Transparency and Disclosure + Board Structure+ Right protection
	Financial Performance =~PM1+PM2+PM3+PM4+PM5+PM6+MP1+MP2+MP3+MP4+MP5+MP6
	Trust =~IT1+IT2+IT3+IT4+IT5+IT6
	Financial Performance ~ Corporate Governance Practices
	Trust ~ Corporate Governance Practices

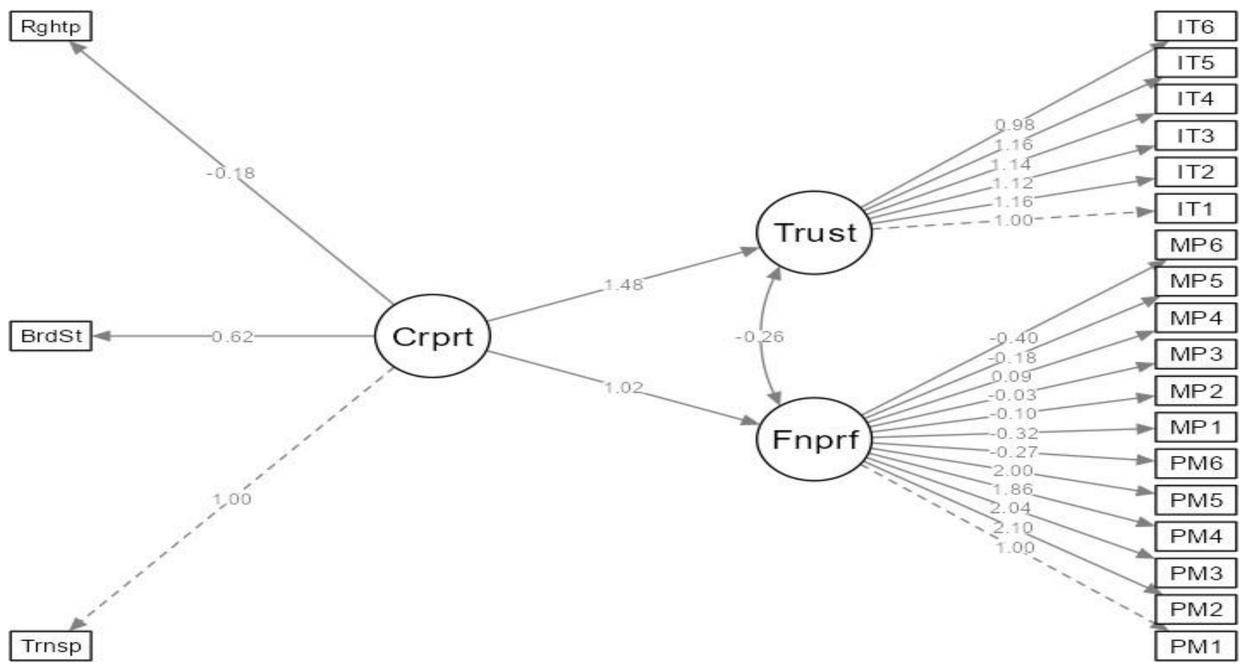
The Models shows relationship between Corporate Governance Practices, Financial Performance and Trust. Corporate Governance Practices was defined as a latent construct: Transparency and Disclosure, Board Structure, and Right Protection. Financial Performance is considered as a latent variable with twelve performance measures (PM1-PM6, MP1-MP6). The second latent variable is also trust assessed with six indicators (IT1-IT6). It is the model that Corporate Governance Practices affects both of Financial Performance and Trust in a direct fashion, assuming that governance structures affect a firm's financial outcomes and trust among stakeholders. The approach taken by this model is complete in analyzing the interaction between corporate governance, financial success, and stakeholder confidence.

Parameters estimates

				95% Confidence Intervals				
Dep	Pred	Estimate	SE	Lower	Upper	β	z	p
Financial Performance	Corporate Governance Practices	1.02	0.2	0.629	1.41	1.19	5.1	< .001
Trust	Corporate Governance Practices	1.48	0.222	1.042	1.91	1.27	6.66	< .001

The structural equation model results, assuming the relationships between Corporate Governance Practices, Financial Performance, and Trust are modeled, are presented in the table 'Parameter Estimates'. It is expected that the estimates indicate that Corporate Governance Practice has a huge positive impact on Financial Performance and Trust. The estimated value of Corporate Governance Practices on Financial Performance is 1.02 with standard error (SE) of 0.2 and a 95% confidence interval of 0.629 to 1.41. The β value of 1.19 and the associated z score of 5.1 imply strong and statistically significant relationship ($p < .001$). In the same manner, it is observed that Corporate Governance Practices have a significant impact on Trust with an estimate of 1.48, SE of 0.222 and confidence interval of 1.042 to 1.91. Thus, the standardized coefficient (β) is 1.27 with z-score of 6.66, which is highly significant ($p < .001$). However, these results indicate that corporate governance can also improve financial outcomes and stakeholder trust simultaneously.

Path Diagram



Measurement model

				95% Confidence Intervals				
Latent	Observed	Estimate	SE	Lower	Upper	β	z	p
Corporate Governance Practices	Transparency and Disclosure	1	0	1	1	0.6485		
	Board Structure	0.6228	0.0577	0.51	0.7359	0.5424	10.795	< .001
	Right protection	-0.1846	0.0552	-0.293	-0.0764	-0.1404	-3.344	< .001
Financial Performance	PM1	1	0	1	1	0.3522		
	PM2	2.1024	0.3683	1.381	2.8242	0.7154	5.709	< .001
	PM3	2.0397	0.3627	1.329	2.7506	0.6735	5.623	< .001
	PM4	1.859	0.3298	1.213	2.5054	0.6795	5.636	< .001
	PM5	1.9995	0.3548	1.304	2.6949	0.6789	5.635	< .001
	PM6	-0.2691	0.1888	-0.639	0.1009	-0.0899	-1.425	0.154
	MP1	-0.3177	0.184	-0.678	0.0429	-0.1102	-1.727	0.084
	MP2	-0.0972	0.1832	-0.456	0.262	-0.0328	-0.53	0.596
	MP3	-0.0268	0.1504	-0.322	0.268	-0.011	-0.178	0.859
	MP4	0.0943	0.1375	-0.175	0.3639	0.0425	0.686	0.493
	MP5	-0.1828	0.1549	-0.486	0.1208	-0.0739	-1.18	0.238
	MP6	-0.3958	0.1708	-0.731	-0.0611	-0.1525	-2.318	0.02
Trust	IT1	1	0	1	1	0.4886		
	IT2	1.1569	0.1705	0.823	1.491	0.5196	6.787	< .001
	IT3	1.1175	0.1691	0.786	1.449	0.498	6.607	< .001
	IT4	1.1404	0.1636	0.82	1.4611	0.5428	6.971	< .001
	IT5	1.1638	0.167	0.836	1.4912	0.5424	6.968	< .001
	IT6	0.9823	0.1484	0.691	1.2732	0.4994	6.619	< .001

The **Measurement Model** table evaluates the relationships between latent constructs (**Corporate Governance Practices, Financial Performance, and Trust**) and their observed indicators, showing their standardized estimates (**β**), standard errors (**SE**), confidence intervals, **z-scores**, and **p-values**.

For **Corporate Governance Practices**, *Transparency and Disclosure* is the reference indicator (**β = 0.6485**). *Board Structure* has a significant positive contribution (**β = 0.5424, p < .001**), while *Right Protection* shows a negative relationship (**β = -0.1404, p < .001**), suggesting weaker protection may hinder governance effectiveness.

For **Financial Performance**, *PM1* is the reference indicator (**β = 0.3522**). Strong positive relationships are observed for *PM2, PM3, PM4,* and *PM5* (**β ranging from 0.6735 to 0.7154, p**

< .001), indicating their importance in assessing performance. However, *PM6, MP1, MP2, MP3, MP4,* and *MP5* show weaker or non-significant effects, with *MP6* being significantly negative (**β= -0.1525, p = 0.02**), possibly suggesting detrimental impacts on financial performance.

For **Trust**, *IT1* is the reference indicator (**β = 0.4886**). Other trust indicators (*IT2 to IT6*) show strong, significant positive associations (**β ranging from 0.498 to 0.5428, p < .001**), affirming a robust measurement structure for this latent construct.

Overall, the model confirms that **Corporate Governance Practices, Financial Performance, and Trust** are well-defined by their observed indicators, with varying degrees of influence. The results highlight the strong role of governance in shaping trust and performance, though some financial indicators contribute negatively.

Variances and Covariances

				95% Confidence Intervals				
Variable 1	Variable 2	Estimate	SE	Lower	Upper	β	z	p
Transparency and Disclosure	Transparency and Disclosure	0.457	0.0453	0.368	0.5456	0.579	10.07	< .001
Board Structure	Board Structure	0.308	0.027	0.256	0.3612	0.706	11.44	< .001
Right protection	Right protection	0.562	0.0455	0.473	0.6511	0.98	12.36	< .001
PM1	PM1	1.724	0.1436	1.443	2.0059	0.876	12.01	< .001
PM2	PM2	1.029	0.0993	0.835	1.2239	0.488	10.36	< .001
PM3	PM3	1.223	0.1135	1.001	1.446	0.546	10.78	< .001
PM4	PM4	0.984	0.0917	0.804	1.1633	0.538	10.72	< .001
PM5	PM5	1.142	0.1064	0.933	1.3503	0.539	10.73	< .001
PM6	PM6	2.17	0.1774	1.822	2.5178	0.992	12.23	< .001
MP1	MP1	2.004	0.1639	1.683	2.3258	0.988	12.23	< .001
MP2	MP2	2.147	0.1753	1.803	2.4902	0.999	12.25	< .001
MP3	MP3	1.456	0.1189	1.223	1.6895	1	12.25	< .001
MP4	MP4	1.203	0.0982	1.01	1.3954	0.998	12.24	< .001

MP5	MP5	1.488	0.1216	1.25	1.7266	0.995	12.24	< .001
MP6	MP6	1.606	0.1316	1.348	1.8643	0.977	12.21	< .001
IT1	IT1	1.426	0.121	1.189	1.6631	0.761	11.78	< .001
IT2	IT2	1.618	0.1385	1.346	1.8891	0.73	11.68	< .001
IT3	IT3	1.693	0.144	1.41	1.975	0.752	11.75	< .001
IT4	IT4	1.392	0.1201	1.156	1.6273	0.705	11.59	< .001
IT5	IT5	1.453	0.1254	1.207	1.6986	0.706	11.59	< .001
IT6	IT6	1.298	0.1105	1.082	1.5149	0.751	11.75	< .001
Corporate Governance Practices	Corporate Governance Practices	0.331	0.0584	0.217	0.446	1	5.67	< .001
Financial Performance	Financial Performance	-0.102	0.0462	-0.192	-0.0113	-0.417	-2.2	0.028
Trust	Trust	-0.276	0.088	-0.448	-0.1035	-0.617	-3.14	0.002
Financial Performance	Trust	-0.264	0.0657	-0.393	-0.1352	-1.575	-4.02	< .001

The **Variances and Covariances** table presents the relationships among various variables, including **Corporate Governance Practices, Financial Performance, and Trust**, along with their respective observed indicators.

The variances for all observed variables, such as *Transparency and Disclosure (0.457, β = 0.579, p < .001)*, *Board Structure (0.308, β = 0.706, p < .001)*, and *Right Protection (0.562, β = 0.98, p < .001)*, are significant, confirming that these variables capture distinct variance in **Corporate Governance Practices**. Similarly, financial performance indicators (*PM1 to PM6* and *MP1 to MP6*) exhibit significant variance, with particularly high values for *PM6 (2.17, β = 0.992, p < .001)* and *MP2 (2.147, β = 0.999, p < .001)*, suggesting strong individual variability in these measures.

Notably, the **covariances** among latent constructs reveal significant negative relationships. *Financial Performance* and *Trust* show a negative covariance (**-0.264, β = -1.575, p < .001**), suggesting that as financial performance increases, trust may decline. Additionally, **Financial Performance itself has a weak but significant negative variance (-0.102, p = 0.028)**, indicating some instability in how it is measured. Trust also shows a significant negative variance (**-0.276, p = 0.002**), which might indicate challenges in its measurement or an inverse relationship with other key constructs.

Overall, these findings suggest that **Corporate Governance Practices, Financial Performance, and Trust** are well-structured constructs with significant internal variance, but their interrelationships reveal complex dynamics, particularly the potential trade-off between financial performance and trust.

Intercepts

	95% Confidence Intervals	

Variable	Intercept	SE	Lower	Upper	z	p
Transparency and Disclosure	3.811	0.051	3.71	3.911	74.346	< .001
Board Structure	3.589	0.038	3.515	3.664	94.057	< .001
Right protection	3.886	0.044	3.8	3.972	88.902	< .001
PM1	3.773	0.081	3.615	3.932	46.581	< .001
PM2	3.687	0.084	3.522	3.851	43.975	< .001
PM3	3.693	0.086	3.524	3.863	42.749	< .001
PM4	3.763	0.078	3.61	3.916	48.22	< .001
PM5	3.61	0.084	3.445	3.775	42.965	< .001
PM6	3.453	0.085	3.286	3.621	40.438	< .001
MP1	3.53	0.082	3.369	3.691	42.922	< .001
MP2	3.467	0.085	3.301	3.633	40.96	< .001
MP3	3.827	0.07	3.69	3.963	54.917	< .001
MP4	3.96	0.063	3.836	4.084	62.481	< .001
MP5	3.883	0.071	3.745	4.022	54.985	< .001
MP6	3.637	0.074	3.492	3.782	49.117	< .001
IT1	3.98	0.079	3.825	4.135	50.371	< .001
IT2	3.807	0.086	3.638	3.975	44.292	< .001
IT3	3.66	0.087	3.49	3.83	42.252	< .001
IT4	3.4	0.081	3.241	3.559	41.922	< .001
IT5	2.96	0.083	2.798	3.122	35.734	< .001
IT6	3.583	0.076	3.435	3.732	47.191	< .001
Corporate Governance Practices	0	0	0	0		
Financial Performance	0	0	0	0		
Trust	0	0	0	0		

The **Intercepts** table reported that intercepts are highly significant (**p < .001**), with high z-values, suggesting strong stability in the mean values of these variables. Among them, *Transparency and Disclosure (3.811, SE = 0.051, z = 74.346)*, *Board Structure (3.589, SE = 0.038, z = 94.057)*, and *Right Protection (3.886, SE = 0.044, z = 88.902)* exhibit the highest intercept values, indicating their relatively higher baseline levels compared to other factors. The **Performance Measures (PM) and Management Practices (MP)** variables also show consistently high intercepts, though **PM6 (3.453) and MP2 (3.467) have slightly lower values**, suggesting some variation in their baseline perception.

Interestingly, the **Information Technology (IT) variables** exhibit more variance, with *IT1 (3.98) having the highest mean* and *IT5 (2.96) the lowest*, indicating different levels of perceived importance or implementation. Additionally, **Corporate Governance Practices, Financial Performance, and Trust have intercepts set at zero**, likely because they are modeled as latent variables without fixed baseline values.

Overall, these intercept values suggest that the measured variables have strong baseline perceptions, with slight variations across dimensions, particularly in **Performance Measures and Information Technology**.

5. Discussion & Conclusion

The purpose of this study was to find out the impact of corporate governance practices on the financial performance and the effect of corporate governance practices on the investor trust in Indian banking sector with a special focus on SBI and BOB. It was found that linking corporate governance to financial performance produces a significant positive relationship between corporate governance and both financial performance and financial stability. In addition, the research verified that corporate governance had an important impact on investor trust, which substantiates the hypothesis that governing structures greatly affected investors' conviction in banks. This results underlined the need for better governance practice as a means of sustaining financial performance and maintaining investors' confidence in the banking industry.

The findings of the study matched previous research which suggests that well governed banks were more financially sound as they were better governed due to good oversight, better decision making and risk mitigation (Aggarwal, 2013). The research also confirmed that corporate governance mechanisms have a positive impact on return on equity and return on assets as earlier concluded that good governance increased profitability and financial efficiency in banking institutions (Kiradoo, 2019). The results also confirmed that CEO duality could affect the governance effectiveness, as other studies have reported mixed outcomes dependent on industry dynamics and regulatory frameworks (Dănescu, Spătăcean, Popa, & Sirbu, 2021).

This study added to previous findings that investor confidence is supported by levels of transparency, ethical leadership and accountability (Ryan & Buchholtz, 2001). The findings of the study corroborated with previous research that governance reforms increase investor confidence (Lee & Shailer 2008), when banks have a strong disclosure policy and regulatory compliance. Additionally, the study's conclusion was in line with previous evidence that corporate governance failures, which include financial misreporting and lack of board independence, reduced investor trust and increased market volatility (Shahid & Abbas, 2019).

To sum up, this study further highlighted the importance of corporate governance in the banking sector to guarantee both financial success and confidence of investors. It was found that banks should continue to improve governance mechanisms, that regulatory authorities such as RBI and SEBI should strengthen the governance standards, and that investors should give priority to the governance quality when making the investment decision. Future research can be more focused on the application of innovative governance practices, the effects of digital transformation on governance transparency, and international comparisons according to the banking industry to shed more light on how to achieve corporate governance frameworks that would be conducive to financial sustainability of firms as well as investor trust.

6. Study implication

The practical implication of this study demonstrates the significance of corporate governance in safeguarding financial stability and maintaining investors' trust in the context of Indian banking sector, particularly in SBI and BOB. The implication is that the banking institutions should increase the level of board independence, audit committee effectiveness, and financial disclosures in a transparent manner, and this would lead to better financial performance and more investor confidence. With the role of regulatory authorities, i.e., the Reserve Bank of India (RBI) and the Securities and Exchange board of India (SEBI) being so critical in the governance of banks, they need to ensure that governance policies are enforced through frameworks that are more stringent in terms of compliance, norms of disclosure, and independent monitoring mechanism to minimise financial risks and prevent governance failures. The study also offers some insights for investors who should consider corporate governance structure of a bank as an important factor when making investment decisions with a view of enhancing financial security and risk mitigation. Furthermore, bankers and policy makers should pay attention to ethical leadership and gauge, risk management strategies and control mechanisms to maintain confidence and sustainable development. This further emphasizes the presence of digital transformation in governance and so, banks should merge AI-based analytics and blockchain technology with automated compliance mechanisms to unleash governance. With the implementation of these governance improvements by banks, the operational efficiency level rises, investor trust gets improved, and the long-term financial resilience is fortified amidst the intensifying financial competition.

7. Future scope of the study

Finally, future scope of this study is extended towards considering larger sample of banks by including private and regional banks to see if governance practices have similar impact on different banks. Another way would be to carry out cross country comparative analysis on how corporate governance mechanism work in multiple regulatory and economic environments. Additionally, future research can utilize advanced econometric models, big data analytics as well as artificial intelligence driven techniques to further fine tune the precision of governance assessments, also to better grasp the opinion of the investors as well as risk management strategies. As digital transformation has been gaining ground in the banking industry, future research could address the influence of blockchain, risk assessment driven by AI, and fintech governance framework on financial performance and investors' trust. Future exploration of another equally important area is the integration of environmental, social, and governance (ESG) factors into banking governance models to understand the extent to which governance on the bases of sustainability enhance investor confidence and bank performance. Future research can address these gaps to create strong governance models, sustainable banking method and enhance investor's confidence about the financial institutions.

References

1. Abdo, A., & Fisher, G. (2007). The impact of reported corporate governance disclosure on the financial performance of companies listed on the JSE. Investment Analysts Journal, 36(1), 43-56. https://doi.org/10.1080/10293523.2007.11082492
2. Aggarwal, P. (2013). Impact of corporate governance on corporate financial performance. IOSR Journal of Business and Management, 13(3), 01-05. https://doi.org/10.9790/487X- 1330105
3. Alhajri, T. M., & Al-Shebli, A. (2024). Do institutional investors play a meaningful role in the effective implementation of corporate governance on SDG? Journal of Lifestyle and SDGs Review.https://doi.org/10.47172/2965-730x.sdgsreview.v4.n02.pe02165
4. Al-Ibbini, O. A., & Shaban, O. (2021). Internal corporate governance mechanisms, investors' confidence and stock price fluctuations risk. Journal of Governance and Regulation.https://doi.org/10.22495/JGRV10I1ART2
5. Ayoola, T. J., Olasanmi, O. O., Inneh, E. G., Ayoola, A. O., &Ehiobuche, C. (2023). Corporate governance quality, corporate life cycle and investor confidence in commercial banks: Evidence from Nigeria. Banks and Bank Systems.https://doi.org/10.21511/bbs.18(3).2023.12
6. Azam, M. (2016). Impact of corporate governance on firm financial performance in the financial sector. Journal of Marketing and Consumer Research, 25, 47-50.
7. Casadesus-Masanell, R., &Spulber, D. F. (2007). Trust and incentives in agency. SSRN Electronic Journal.
8. Dănescu, T., Spătăcean, I. O., Popa, M. A., & Sirbu, C. (2021). The impact of corporate governance mechanisms over financial performance: Evidence from Romania. Sustainability, 13(19), 10494. https://doi.org/10.3390/su131910494
9. Dasgupta, A., Fos, V., & Sautner, Z. (2020). Institutional investors and corporate governance. Mutual Funds.https://doi.org/10.2139/ssrn.3682800
10. Gizatullin, A. (2008). Corporate governance and financial performance: A meta-analysis.
11. VoprosyEconomiki, 10, 62-76. https://doi.org/10.32609/0042-8736-2008-10-62-76
12. Hammond, P., & Opoku, M. O. (2023). Assessing the mediation role of corporate governance on the relationship between going concern and investor confidence. International Journal of Economics, Business and Management Research.https://doi.org/10.51505/ijebmr.2023.7402
13. Hsiao, C. Y., & Zhang, B. (2023). The impact of corporate governance on financial performance in aggressive strategies - A case study of the 3C industry of Chinese listed companies. Asian Journal of Economics, Business and Accounting, 23(17), 1039. https://doi.org/10.9734/ajeba/2023/v23i171039
14. Issa, M. (2023). Adequacy of corporate governance mechanisms as a guide for investors' decision. The Scientific Journal of University of Benghazi.https://doi.org/10.37376/sjuob.v36i2.4292
15. Kiradoo, G. (2019). Impact of corporate governance on the profitability and financial performance of the organization. CGN: Effects on Performance of Firms.
16. Lee, J., & Shailer, G. (2008). The effect of board-related reforms on investors' confidence. Australian Accounting Review, 18(1), 123-134.
17. https://doi.org/10.1111/j.1835-2561.2008.0014.x
18. Li, X., Lai, J., & Tang, J. (2016). Study of the influence of corporate governance level on investors' confidence. Canadian Social Science, 12(1), 8-16. https://doi.org/10.3968/%X
19. Moers, F., Peek, E., & Vorst, P. (2021). The post-IPO dynamics of investor trust in corporate disclosure. Financial Accounting eJournal.https://doi.org/10.2139/ssrn.3863652
20. Oino, I., & Itan, M. (2018). Impact of corporate governance on banks' financial performance. International Journal of Advanced Research in Economics and Finance, 5(4).

21. Pevzner, M., Xie, F., & Xin, X. (2012). When firms talk, do investors listen? The role of trust in stock market reactions to corporate earnings announcements. SSRN Electronic Journal.
22. Ryan, L., & Buchholtz, A. (2001). Trust, risk, and shareholder decision-making: An investor perspective on corporate governance. Business Ethics Quarterly, 11(2), 177-193. https://doi.org/10.2307/3857876
23. Saygili, A. T., Saygili, E. E., &Țaran, A. (2021). The effects of corporate governance practices on firm-level financial performance: Evidence from Borsa Istanbul XKURY companies. Journal of Business Economics and Management.https://doi.org/10.3846/JBEM.2021.14440
24. Shahid, M., & Abbas, M. (2019). Does corporate governance play any role in investor confidence, corporate investment decisions relationship? Evidence from Pakistan and India. Journal of Economics and Business. https://doi.org/10.1016/J.JECONBUS.2019.03.003
25. Shahid, M., & Abbas, M. (2019). Does corporate governance play any role in investor confidence, corporate investment decisions relationship? Evidence from Pakistan and India. Journal of Economics and Business.https://doi.org/10.1016/J.JECONBUS.2019.03.003
26. Sriram, P., &Kolmkar, P. (2015). Impact of corporate governance disclosures on financial performance. International Letters of Social and Humanistic Sciences, 40, 35-
27. 40. https://doi.org/10.18052/www.scipress.com/ilshs.40.35
28. Strauss, N. (2018). The role of trust in investor relations: A conceptual framework. Corporate Communications: An International Journal, 23, 00-00. https://doi.org/10.1108/CCIJ-04-2017-0026
29. Tamara, T. T., Haninun, H., & Aminah, A. (2024). The effect of good corporate governance implementation on financial performance. Cashflow: Current Advanced Research on Sharia Finance and Economic Worldwide, 3(2). https://doi.org/10.55047/cashflow.v3i2.1084