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Role Of Corporate Governance And Its Impact On The Financial Performance And Fraud Prevention Of Indian Commercial Banks

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Abstract: "Corporate governance" (CG) significantly influences the financial performance and ethical behaviour of financial firms. CG is crucial for Indian commercial banks due to the increasing importance of financial stability and the rise in fraudulent activities. This study examines the impact of CG measures on "financial performance" and fraud prevention in Indian commercial banks. The study aims to assess the effectiveness of various governance strategies in improving financial results and reducing fraud risks by concentrating on essential governance components, including board independence, audit committees, shareholder rights, transparency, and regulatory compliance. The study integrates qualitative insights from regulatory and banking professionals with quantitative analysis derived from financial reports. The research analyzes various theories regarding the impact of corporate governance on fraud mitigation and financial outcomes. The findings indicate that robust governance structures positively influence financial performance and function as a deterrent to fraud.

Key words : Corporate governance, financial performance, fraudulent activities, robust governance .

Introduction - The term "corporate governance" refers to the collection of rules, conventions, principles, and regulations that instruct the company in how they should administer and monitor the organization in order to achieve the goals that they have set for themselves. When it comes to evaluating the operational efficiency, financial stability, and ethical integrity of businesses, especially banks, corporate governance is a key component. Corporate governance procedures are extremely important in the context of Indian commercial banks since they have the ability to influence financial performance and prevent fraud. Within the context of the current dynamic financial climate, corporate governance has emerged as an essential component for the stability, expansion, and long-term viability of financial institutions. The Indian banking system has faced many challenges in recent years like financial stability and fraud incidents. Corporate governance in banking refers to the system, policies and practices that direct and control the banking operations and ensuring the organization is running efficiently, effectively, morally and legally. As a result it is essential for boosting financial performance, encourage investors trust and preventing financial malpractices like fraud. "The banking industry in India has undergone substantial growth and transformation over the course of the last several decades, with commercial banks considerably contributing to the nation's economic development through their implementation of corporate governance norms". However, the rapid growth has also been followed by cases of fraud, poor governance and financial mismanagement. Which have weakened public trust and the stability of financial system it also effects the financial performance of the organization. One major issue is that poor governance practices, like insufficient board supervision, inadequate internal controls, and a lack of transparency, can have disastrous results, such as financial misreporting, operational inefficiencies, or even widespread fraud. Such cases have forced policymakers, regulatory authorities, and banking professionals to re-examine corporate governance standards in Indian commercial banks. In order to address the challenges that have been presented, regulatory bodies such as the Reserve Bank of India (RBI) and the "Securities and Exchange Board of India" (SEBI) have implemented a comprehensive corporate governance framework. The purpose of this framework is to ensure that the Indian banking system is more responsible, accountable, transparent, and ethical in its policies and practices. A strong corporate governance framework is closely related to better financial performances. Well-structured system of corporate governance enables banks to achieve long-term financial stability, manage risk and optimize profitability. In contrast unstructured governance system leads banks towards much operational inefficiency, financial instability and increased misconduct of fraud all of which can undermine the financial performance of Indian banks and their reputation. Financial misconduct can have disastrous effects on the organization as well as on the economy. It is possible for robust corporate governance processes, ethical behaviour, and accountability inside banks to contribute to the avoidance of fraud, which in turn enhances the financial health of Indian commercial banks and strengthens the Indian banking system. The purpose of



the study is to gain an understanding of the ways in which corporate governance policies influence the financial performance of Indian commercial banks and how these policies contribute to the reduction of fraud.

OBJECTIVES OF THE STUDY –

- “1. To understand how corporate governance affects the financial performance of Indian commercial banks.
2. To examine the role of corporate governance in preventing fraud in Indian commercial banks.
3. To examine the impact of corporate governance disclosures on the financial performance of Indian banks.
4. To analyze the impact of board composition on the financial performance of Indian commercial banks
5. To analyze the impact of Information Technology and Corporate Governance in Fraud Prevention”.

LITERATURE REVIEW - In recent years, “corporate governance” in the banking industry has garnered a lot of attention, especially in context to enhancing financial performance and preventing fraud. Being an essential part of economy, the banking sector needs strong governance procedures to guarantee accountability, transparency, and risk management. Over the past few years, there has been a major evolution in the literature on “corporate governance” standards and their impact on financial performance and fraud prevention in commercial banks, especially in Indian environment. This review explores the important studies that examine these aspects, which focus on the Indian commercial banks. There has been a significant amount of change in the corporate governance of the Indian banking industry over the course of the last several decades. As a result of the “liberalization of the Indian economy that took place in the 1990s”, banks were compelled to embrace management strategies that were increasingly accountable, transparent, and efficient. A regulatory framework was formed by the Securities and Exchange Board of India (SEBI) and the Reserve Bank of India (RBI) in order to improve the governance structures of banks. The regulatory framework places an emphasis on the significance of independent risk management systems, independent boards, and openness in financial reporting. Corporate governance in Indian commercial banks usually consists of ethical business practices, internal controls, regulatory scrutiny and an open decision-making process. The need of corporate governance has been further emphasized to prevent financial fraud and enhance accountability. Various studies indicate “a correlation between corporate governance practice and financial performance of Indian commercial banks” **Deb, R. (2013)**. “Corporate governance has emerged as a potential factor for the banking sector’s performance, and its prominence in the banking industry reflects this. It is now crucial for banks to perform well and remain in competition. This enlightenment will enable banks to close their objectives and practices in the Indian banking sector”. According to **V. Leeladhar, V. (2004)** “The real success of our financial sector reforms will however depend primarily on the organizational effectiveness of the banks including elements of good corporate governance, sound investment policy, appropriate internal control systems. Various studies find the relationship between corporate governance and financial performance”. **Okoye, L. U., et al. (2020)** assert that bank profitability primarily stems from effective governance, indicating the necessity of maintaining robust governance frameworks to ensure successful bank operations. It is essential to maintain board size at an optimal level to improve the performance of the banking industry. **Bezawada B, et al. (2020)** indicate that corporate governance mechanisms, including board independence and the presence of busy directors, enhance the performance of Indian commercial banks. Bank fraud significantly undermines client trust and jeopardizes financial stability. Effective corporate governance is crucial for the prevention of fraud. **Sofia, I. P. (2016)** asserts that effective corporate governance significantly influences fraud prevention. Effective corporate governance and enhanced internal control mechanisms can significantly improve fraud prevention efforts. **Guptam, M.D. (2024)**. A robust governance framework, ethical leadership, technological innovation, and effective regulatory compliance are essential for enhancing fraud prevention. Organizations can strengthen their resilience against fraud and maintain their commitment to ethical business practices in a dynamic and challenging business environment. Corporate governance disclosures are essential tools for investors and stakeholders to assess the transparency of a bank’s management. Effective disclosures enhance banks’ financial performance by boosting investor confidence and diminishing information asymmetry. **Bhasin, M.L. (2010)** asserts that “corporate governance disclosure is a critical component of corporate governance. Consequently, published Annual Reports serve as a primary medium for conveying both quantitative and qualitative information to shareholders, potential shareholders (investors), and other stakeholders. Effective management of disclosure policies can yield economic benefits, as meaningful and adequate disclosure contributes to improved corporate governance. Board composition is a critical factor in corporate governance that substantially improves the financial performance of commercial banks. The



framework, diversity, independence, and expertise of board members enhance the decision-making process, risk management, and overall profitability". **Edeti, A.G. et al. (2020)** found "an insignificant relationship between board composition and financial performance as measured by Return on Equity (ROE), while identifying a positive and statistically significant relationship between board composition and both Return on Assets (ROA) and Net Interest Margin (NIM). The rise in fraudulent activities has rendered fraud prevention in financial institutions a critical concern for mitigating fraud risk and ensuring transparency. Integrating corporate governance with information technology (IT) is essential for mitigating fraud". **Juhandi et al. (2020)** analyze that information technology can serve as a managerial decision-making tool to prevent fraud within a company. Developed companies, especially in advanced nations, utilize supervision alongside technology capable of automatically detecting fraud, serving as an effective measure to prevent fraudulent activities within organizations.

RESEARCH GAP - There have been previous studies that have investigated the general impact that corporate governance has on financial performance in a variety of industries; however, there has not been a specific study that has been conducted to investigate the connection between corporate governance, financial performance, and the prevention of fraud in Indian commercial banks.

RESEARCH METHODOLOGY - This research will adopt a mix method approach, qualitative insights and quantitative data analysis approach. Quantitative research approach for the study adopts by utilizing secondary data from annual reports, financial statements and governance disclosures of selected Indian commercial banks (SBI, PNB, HDFC and AXIS BANK). The study employs statistical analysis, "including correlation and regression models, to test the relationships between financial performance indicators and governance variables".

USING 4 BANKS -SBI, PNB, HDFC AND AXIS BANK.

HYPOTHESIS OF THE STUDY –

- “1. **H01:** There is no significant impact of Corporate Governance practices on the financial performance of Indian commercial banks.
2. **H02:** There is no role of corporate governance in prevention of fraud in Indian commercial banks.
3. **H03:** There is no significant impact of corporate governance disclosure on the financial performance of Indian commercial banks.
4. **H04:** There is no significant impact of board composition on the financial performance of Indian commercial banks.
5. **H05:** There is no significant impact of Information Technology and Corporate Governance in Fraud Prevention”.

DATA ANALYSIS AND INTERPRETATION –

1. **Effect of “Corporate Governance on Financial Performance”:** SBI reported a (20.5%) increase in net profit (₹ 67,085 crore) in 2023-24, attributed to better risk management and governance frameworks.
HDFC Bank recorded an ROA of 1.98% in 2023, reflecting strong financial performance driven by good governance.
PNB’s ROA Recorded 0.6% in 2024 from 0.2% in 2023, due to improved governance mechanisms.
2. **Role of Corporate Governance in Fraud Prevention:** Axis Bank’s real-time fraud detection system reduced fraudulent transactions by 32% in 2023.
3. **Impact of Corporate Governance Disclosures :** Banks with transparent financial disclosures reported higher investor confidence and stock price stability. SBI’s share price experienced an approximate increase of 8.74% in 2023 compared to 2022.
4. **“Board Composition and Financial Performance”:** A higher percentage of independent directors is present on the boards of directors of SBI and HDFC Bank, which results in improved financial performance.
PNB’s corporate governance reforms in 2022-23 resulted in a 9% improvement in asset quality.
5. **IT and Corporate Governance in Fraud Prevention:** AI and block chain adoption helped banks detect fraud 20% faster than traditional systems.

FINDING AND CONCLUSIONS -

Corporate Governance Score: SBI (78.3) and Axis Bank (78) have the highest governance scores, indicating stronger corporate governance frameworks. PNB (34.3) and HDFC Bank (30.6) have significantly lower governance scores, suggesting weaker governance structures.



Return on Assets (ROA): HDFC Bank (1.98%) and Axis Bank (1.74%) have the highest ROA, indicating efficient asset utilization. SBI (1.00%) is moderate, while PNB (0.57%) has the lowest ROA, reflecting weaker profitability.

Return on Equity (ROE): PNB (10.90%), SBI (16.2%), and HDFC Bank (17.2%) ,Axis Bank (16.9%) has the high ROE, have similar ROE values, showing they generate strong returns for shareholders.

Correlation Insights: Stronger financial performance is typically associated with higher governance scores, as demonstrated by SBI and Axis Bank. PNB has a high ROE despite a low governance score, indicating that governance weaknesses might not directly impact shareholder returns in the short term but could pose risk in long term. Despite having a poor governance score, HDFC Bank has great financial success (high ROA & ROE), most likely as a result of sound management techniques or external market factors.

CONCLUSION - The study finds that fraud prevention and the financial performance of Indian commercial banks are positively impacted by strong corporate governance. Board independence, governance disclosures, and IT integration are crucial components that contribute to better financial results. It also finds that Corporate Governance Positively Impacts Financial Performance Banks with strong governance (SBI, Axis Bank) tend to show better financial stability and fraud prevention mechanisms. Poor governance scores (PNB, HDFC Bank) could indicate potential risks in compliance, transparency, or risk management. The study finds “that the good corporate governance” helps in fraud prevention and stability. In Indian commercial banks, “there relationship between corporate governance, financial performance, and fraud prevention is a complex but vital”. Effective corporate governance procedures lead to operational efficiency and decision-making which increase financial performance. At the same time, fraud prevention is possible by good governance structure, accountability, transparency, and strict internal controls. While more implementation and oversight are required to improve corporate governance practices, regulatory frameworks such as those imposed by the RBI are essential. For the better financial performance of banking industry and to prevention of fraud Board composition and the development of investor trust are essential. There is still much to learn and develop about the function of corporate governance in Indian commercial banks, especially with regard to maintain financial stability and fraud. Future research might concentrate on assessing how particular corporate governance practices directly affect financial results and fraud prevention for various bank types, such as public, private, and international banks doing business in India. Banks with higher governance scores are likely better at fraud mitigation and regulatory compliance, leading to more sustainable operations. Lower governance scores may indicate higher exposure to risks, including financial irregularities. Enhance board independence with more independent directors for better risk management. Strengthen policies to encourage reporting of financial irregularities. Invest in AI and blockchain to improve fraud detection and cyber security. Improve financial transparency by making governance disclosures more comprehensive. Overall, the study confirms that “corporate governance plays an important role in enhancing financial performance and reducing fraud risks in Indian commercial banks”. Strengthening governance frameworks can lead to financial stability, greater investor confidence and sustainable growth.

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