Corporate Governance and Public Sector Banks Consolidation: Evidence from India

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Abstract:
Government of India recently, initiated a major consolidation of public sector banks with the purpose of addressing corporate governance issues of these banks. Our study is to evaluate the rationale of bank consolidation considering their existing capital adequacy framework, asset quality and profitability of public sector banks and how consolidation can help improve their performance. An implication of this paper is that it flags important corporate governance issue and provides a prescription for good corporate governance practices of public sector banks.
Keywords: Corporate Governance, Public Sector Banks, Leadership, Bank Consolidation

1. Introduction

The corporate governance framework is fundamental to the company's existence. It acts as a foundation for the company's business model, thus enhancing longevity on one side and protection of internal and external stakeholders on the other side. Empirical studies in the corporate governance area has shown that the companies which disregarded good corporate governance practices were not found favored by the investor community and other stakeholders leading to the ultimate closure of their businesses[1]. It's for this purpose that good corporate governance practices are of vital importance for the company's growth more so in the case of banking business.

In India, the PSB's dominate the banking landscape with 73 percent of the business, where Government of India has majority stake in these banks[2]. Globalization of the Indian economy has led to increased interconnection and interdependence among the sectors viz., with the heavy leveraged balance sheets of the companies in the power sector, telecom and aviation etc., Banks' balance sheets are coming under increased pressure in terms of their *asset quality, lack of profitability* thus leading to *Capital erosion.*[3]. Thus, business fortunes and financial duress with any sector is leading its way directly or indirectly impacting financial health of banks in general and

[1] Courteau, L., Di Pietra, R., Giudici, P. and Melis, A., (2017). The role and effect of controlling shareholders in corporate governance. *Journal of Management & Governance*, Vol. 21, No, 3, pp.561-572.
[2] Singh, A. and Sharma, A.K., (2016). An empirical analysis of macroeconomic and bank-specific factors affecting liquidity of Indian banks. *Future Business Journal*, Vol. 2, No, 1, pp.40-53.
[3] Farrell, H., & Newman, A. (2016). The new interdependence approach: theoretical development and empirical demonstration. *Review of International Political Economy*, Vol. 23, No. 5, pp.713-736.

public sector banks in particular. A study by De Haan and Vlahu, (2016)[4] established that good corporate governance practices in the banking industry can help absorb shocks from other sectors. In India, the banking sector is also viewed as a proxy for Indian Economy growth therefore bank capitalization, issues around asset quality and profitability of public sector banks are of paramount importance while addressing the financial health of the banks. In this corporate governance environment will act like a bedrock in laying foundation for financial viability and sustainability for the banks to survive global competition. In the case of public sector banks this governance requirement is all the more important given the depth and the breadth of their branch network and penetration across the country.

One of the foremost questions in the area of banking is whether corporate governance models should be expanded to take into account the interests of the larger pool of stakeholders in an organization which includes depositors and creditors, or whether it should adhere to the traditional understanding and concentrate on protecting shareholder interests. For instance, the Punjab Maharashtra Cooperative Bank Fraud; the corporate governance issues at Yes Bank, ICICI Bank, and the recent Lakshmi Vilas bank showcases serious governance lacunae with the Public Sector Banks in general are a case in the point.
The corporate landscape in India comprises of family businesses at one end and government businesses at the other end of the spectrum. Therefore, the governance model of Anglo-Saxon is largely a misfit in the Indian context. Paradoxically Indian company adopted the Anglo-Saxon model of governance style. In both scenarios the family business governance and government business governance the owner is also the manager, this leading to a fundamental conflict of interest.

The US model of the corporate governance differs from the European model in their approach towards various stake holders, while the US Model of governance centers around protection of shareholder's interest and wealth maximization for the investors[5]. Whereas the European corporate governance models cater to the interest of various stake holders. Thus, in the business of banking a stakeholder approach to corporate governance is suitable. Therefore, any corporate governance failures with the bank will have negative overturns and spillover effect on the depositors first and secondly on SMEs for their borrowing requirements, and thirdly on employees. Unlike business failures with any corporate has less impact on the society but the business failures with the banks leads to loss of faith and trust of public which can have drastic consequences on the economy.

In this context, if one begins with the assumption that the role of corporate governance is to protect the interest of the wider category of stakeholders, the need for detailed and stringent norms in relation to the activities of banks and financial sector entities becomes very important. Our Research aims at measuring the impact of consolidation of public sector banks and the role corporate governance can play in enabling consolidation to realize their intended goals. Therefore, we have studied public sector bank consolidation which was done in phases from the spectrum of

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[4] De Haan, J. and Vlahu, R., (2016). Corporate governance of banks: A survey. *Journal of Economic Surveys*, Vol. 30, No. 2, pp.228-277.
[5] Bottenberg, K., Tuschke, A., & Flickinger, M. (2017). Corporate governance between shareholder and stakeholder orientation: Lessons from Germany. *Journal of Management Inquiry*, Vol. 26, No. 2, pp.165-180.

governance norms. This paper identified the areas of primary concern regarding governance in the banking sector and discussed possible policy alternatives to enhance corporate governance of public sector banks.

2. Literature Review

In a way, public sector banks represent India's heritage and trust, but their performance is extremely low on various parameters like burdening NPAs, poor profitability track record and difficult levels of capital adequacy norms, this is resulting in finance ministry giving continuous attention to these weak banks providing them with capital infusion using tax payer's money. It is strange that even after decades of post liberalization reforms sustainability and existence of public sector banks has become a question mark and a topic of debate among the academia and industry circles, therefore it has become incumbent for the Government of India to bail out ailing public sector banks through consolidation among weak banks.

Commercial banks generally play a vital role in respect of the financial system of all nations, but particularly so in case of developing country like India[6]. Additionally, in developing economies the important role capital market play is undeniable in relation to financing of corporate business transactions; but it is not the same in relation to SME sector in particular and overall economy in general, the commercial banks step in to provide the necessary impetus to growth through their credit mechanisms[7].
Banks face unique types of risks in their activities namely: Credit risk, market risk, legal risk, reputation risk, regulatory risk, and operational risk, etc[8]. Further with increased exposure of bank lending to a particular sector like aviation, power, telecom to name a few, its business risk stands enhanced making it vulnerable to the fortunes of the underlying sector[9]. In addition to this there is the case of asset-liability mismatch leading to pressure on the treasury operations of the bank[10]. Therefore, public sector banks, lack of performance affects the entire financial system and the social fabric of the economy. If this scenario prolongs for greater length in time, it can lead to serious disruption of the entire financial system in the country with snowballing effect on other sectors of the economy.

Government with majority stake in public sector banks makes them responsible for meeting broader social and economic objectives[11]. Therefore, public sector banks goals are opposite to their counterparts in their private sectors where the return on

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[6] Al-Musali, M.A. and Ku Ismail, K.N.I. (2016), "Cross-country comparison of intellectual capital performance and its impact on financial performance of commercial banks in GCC countries", *International Journal of Islamic and Middle Eastern Finance and Management,* Vol. 9 No. 4, pp. 512-531. https://doi.org/10.1108/IMEFM-03-2015-0029.

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investment, return on capital and return on the asset are the benchmarks for their performance. With the exception of a few banks in the private sector, the general trend doesn't sound upright. Due to RBI intervention, CEO's of the leading private banks' tenure has either been terminated or not renewed. And in certain others instances, red flags had been raised by the RBI over the ownership by promoters and issues relating thereto[12]. The role of directors in such divergent organizational settings, therefore needs a nuanced appreciation. This gets us to the core issue of governance i.e., leadership at the board level. The Central Government's attempt in the constitution of bank's board bureau for the purpose of making a road map for board independence, autonomy and government's stake dilution did not augur well. The board of directors of the bank should possess transaction-based experience in the financial sector in general and banking sector in particular, preferably with knowledge of banking business in the emerging market economies. This provides the foundation for the sound management of any bank which is absolutely crucial for the public sector banks in India, given their current financial and business scenario[13]. It's the responsibility of the bank Boards to identify the various types of risk which the bank experiences, design strategies to manage and control the risk and measure the outcomes in a controlled environment[14]. The composition of the board of directors of the bank should ideally comprise of mixture of non-executive/executive and independent directors, and there should be a separation of position of board's chairman with that of CEO[15]. Steps to be taken to ensure avoiding conflict of interest among the bank and its directors; Rigorous internal control and internal audit measures to be taken and external auditor role not extending to other financial interests.

To enhance the corporate governance standards of Indian Banks, RBI has taken seminal steps in this direction[16]. There has been a shift toward equal treatment of private and public sector banks in terms of prudential aspects. Additionally, there has also been a focus on the introduction of fit and proper norms for directorial appointees in banks[17]. In this regard, it would appear that the time is right to assess whether the policy shift adopted by the Government of India towards Public Sector Banks is a viable one.

With the experience gained on the back of merger of "*5 associates state banks with the State Bank of India (SBI)"* and the merger of "*Dena and Vijaya Bank with Bank of Baroda*", The Government took the initiative for a large scale bank consolidation viz.,

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[12] Panda, B., (2017). Piling Stressed Assets of Indian Banks & the Way Forward. *Asian Journal of Research in Banking and Finance*, Vol. 7, No. 2, pp.7-22.

[13] Chaudhary, K., & Sharma, M. (2011). Performance of Indian public sector banks and private sector banks: A comparative study. International Journal of Innovation*, Management and Technology*, Vol. 2, No. 3, p. 249

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"*(i) Punjab National Bank (PNB) with Oriental Bank of Commerce (OBC) and United Bank of India (UBI)"*, (ii) "*Union Bank with Andhra and Corporation Bank, (iii) Canara with Syndicate bank*", and (iv) "*Indian Bank and Allahabad Bank".*

Each of these mergers poses a unique challenge in terms of weak Capital to Risk Assets Ratio (CRAR), weak Gross Net performing Assets (GNPA) and equally weak profitability ratio. The Government objective behind the public sector bank consolidation is to enhance corporate governance standards of public sectors banks[18]. Corporate governance is essentially a leadership issue.

Previous studies have noted that consolidation may not lead to better corporate governance[19]. Theoretically, merger and acquisitions are done based on the dialogue between the acquiring company's board and target company's board. Therefore, to understand matchmaking exercise forced upon the banks by the Government of India goes against best governance practices. In any large-scale bank consolidation of this magnitude inevitably it takes 3-5 years to for any synergy to be realized. In fact, Narasimham committee cautioned against merger of weak banks, but rather suggested for merger among strong banks[20]. With this consolidation Central government has done the opposite of what Narsimham Committee recommended.

The corporate governance environment is established with the help of board of directors in formulating strategies and the Management in execution of strategies[21]. The board can function as, *passive, active, controlling, intervening, interfering and professional* boards. With the initiation of economic reform since 1991 and the resultant financial globalization, Indian banking market is viewed as one of the opportunity for growth[22]. Therefore, foreign institutional investors and domestic institutional investors have started taking active interest in investing into banking sector in those companies where board governance and quality management stands established.

In many situations and in the event of corporate frauds/ misfeasance, the board knows the last. This kind of situation speaks volumes about the seriousness and accountability of the board of directors in discharging their fiduciary duties toward the company and the investor community. Good corporate governance is all about *the*

[18] Singla, M. and Singh, S., (2018). Impact of institutional set-up on the responsiveness to change in a firm's governance structure: A comparative study of public and private sector enterprises in India. *Global Journal of Flexible Systems Management*, Vol. 19, No. 2, pp.159-172.

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[22] Kandil, M., Shahbaz, M., Mahalik, M.K. and Nguyen, D.K. (2017), "The drivers of economic growth in China and India: globalization or financial development?", *International Journal of Development Issues*, Vol. 16 No. 1, pp. 54-84. https://doi.org/10.1108/IJDI-06-2016-0036.

accountability of board of directors[23]. The establishment of banks board bureau is a step in the right direction as an apex body overseeing the appointment, remuneration etc. of directors of various public sector banks in their respective boards. Management is about running business; Governance is about seeing that it is done effectively[24]. Therefore, the boards of banks have the overall responsibility to ensure that banks function well. In spite of thirty years after economic reforms, India lags behind in inculcating banking habits and huge unbanked population to be covered. This gives scope for a market opportunity which can be taped by those bank businesses who have developed reputation. Public sector banks in India have the added advantage of being considered as nation's heritage. This therefore adds the reputation for the banks. Thus, it is incumbent on the part of bank boards to leverage this reputation and formulate strategies to their advantage.

Given the prime importance about role of the board of directors in the governance of public sector banks, through our study we developed a conceptual model linking governance factors and firm performance factors which enables consolidated public sector banks achieve their intended goals in terms of financial soundness, quality management and national level visibility through quality service to customers.

3. Research Design

3.1 Data: For the purpose of our study we extracted data from CMIE Prowess and annual report of the banks for 10 years starting from 2009-10 to 2018-19. The current study makes a comparison between public sector banks which were consolidated earlier viz., SBI and five associate banks; Bank of Baroda and Dena and Vijaya Bank with recently consolidated banks *PNB* – OBC, United Bank of India; *Union Bank* – Corporation Bank, Andhra Bank; *Canara Bank* – Syndicate Bank; *Indian Bank* – Allahabad Bank. Description of the banks considered in the sample are mentioned in Annexure 1. The focus of study is on public sector bank consolidation since they amount to 82 percent of state bank business and overall 73 percent of dominance in the Indian banking sector is by the public sector banks (Business Standard, 2019[25]). Therefore, our study assumes significance.

3.2 Measurement of Variables: The Measurement of dependent, independent and control variables is given in Annexure 2.

3.3. Methodology:

The current study employed panel data regression model for performing the analysis. Prior to application of the tool, data has been tested for multicollinearity and heteroskedascity. Also, hausman test is used to choose between the random and fixed effect model. As per values of hausman test, fixed effect regression model is used for data analysis purpose. The Durbin-Wu-hausman test detects predictor

[23] Brennan, N.M. and Solomon, J. (2008), "Corporate governance, accountability and mechanisms of accountability: an overview*", Accounting, Auditing & Accountability Journal,* Vol. 21 No. 7, pp. 885-906. https://doi.org/10.1108/09513570810907401.

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variables in a regression model and helps to select between fixed and random effect model in a panel data analysis[26].

For the purpose of analysis, we have considered the following parameters; Board Size, Percentage of Non-Executive Directors, Chairman/CEO Duality, Capital Risk Adequacy Ratio (CRAR), Gross Non-Performing Assets (GNPA), Return on Assets (ROA) as the independent variables and bank consolidation as dependent variable. Control variables are size, age, deposit growth and leverage of the bank. CRAR is the minimum capital that the banks must maintain with them[27]. Maintaining a minimum CRAR help banks to avoid risks in case of recession or pandemic like situation by having necessary funds available with them. According to the Basel-III guidelines all banks which are having international presence must maintain a minimum CRAR of 11.5 percent which India has made mandatory for all public sector banks as well; GNPA in Indian Banking system is termed as credit/loan facility on which the principal installment has not been paid for past 90 days[28]; ROA in the banking sector defines the "operational efficiency" of a bank, it provides information on the average profit generated by the bank, indicating its efficiency[29]. With regards to the Board size (BS) it is always a derivative of the banks size in terms of its business operations. From a governance perspective banks need to attain optimum board size in terms of number of directors comprising of majority "*Non-executive directors, Independent directors and Executive Directors*"[30]. Percentage of Non-Executive Directors (NED) have a vital role in terms of representation in various committees of the board. It is expected that they take leadership position in all the mandatory committees of the board[31]. Non-Executive directors possessing professional qualifications, with varied and diverse experience is called for effective functioning of the Boards. Chairman/CEO Duality is the most common feature with Public sector organizations and also with public sector banks, this is due to government having majority stake.

4. Estimation

In this section, we empirically investigate the effect of chosen firm performance and corporate governance indicators on consolidation of public sector banks. The study considers consolidation of banks as a set of dependent variable where dummy variable 1 for recent consolidated public sector banks and 0 for previously consolidated public sector banks with the impact of consolidation on independent variables.

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[26] Ullah, S., Akhtar, P. and Zaefarian, G., (2018). Dealing with endogeneity bias: The generalized method of moments (GMM) for panel data. *Industrial Marketing Management*, Vol. 71, pp.69-78.

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[31] Kaczmarek, S., Kimino, S. and Pye, A., (2012). Antecedents of board composition: The role of nomination committees. *Corporate Governance: An International Review*, Vol. 20, No. 5, pp.474-489.

Table 1: Descriptive Statistics of Variables

Primary Variables			
	Mean	Median	Standard Deviation
ROA_t	0.770	0.710	0.544
$\log(BS_t)$	1.027	1.041	0.083
$PNED_t$	71.084	72.727	7.208
$CEOdual_t$	0.543	1.000	0.498
$GNPA_t$	5.564	3.995	5224
$CRAR_t$	11.936	12.355	2.182
Control Variables			
	Mean	Median	Standard Deviation
Size_t	12.800	12.286	1.398
DG_t	10.920	12.307	12.010
LEV_t	0.035	0.033	0.022

From the output of fixed effect model as depicted in Table 3, it is seen that Corporate Governance factors plays an important role in affecting the decision of consolidation of public sector banks.

Table 2: Correlation Matrix

	ROA	*BS*	*PNED*	*CEOdual*	*GNPA*	*CRAR*	*SIZE*	*AGE*	*DG*
ROA	1.000								
BS	-0.310	1.000							
PNED	0.230	0.191	1.000						
CEOdual	0.117	0.106	0.486	1.000					
GNPA	-0.028	0.144	0.007	-0.190	1.000				
CRAR	-0.209	0.530	0.374	0.269	0.130	1.000			
SIZE	-0.155	0.237	-0.432	-0.588	0.111	-0.002	1.000		
AGE	0.102	-0.044	-0.068	0.180	0.174	0.103	-0.150	1.000	
DG	-0.118	0.334	0.202	0.478	-0.522	0.300	-0.085	-0.175	1.000
LEV	-0.015	-0.528	-0.003	0.113	0.112	-0.462	-0.309	-0.051	-0.221

Table3: Output of Fixed Effect Regression Model

Variables	co-efficient (t-stat)
ROA_t	0.039 (0.254)
$\log(BS_t)$	-0.385 (-1.975)**
$PNED_t$	-0.004 (1.734)***
$CEOdual_t$	0.245 (1.773)***
$GNPA_t$	0.104 (2.011)***
$CRAR_t$	0.014 (0.923)
Size_t	-0.013 (-0.423)
Age_t	0.831 (6.441)*
DG_t	-0.016 (-1.762)***
LEV_t	-5.252 (-3.070)*
Intercept	-2.350 (-2.460)*
Year-dummy	Yes
Adjusted R-square	0.491

*, **, *** represents significance at 1%, 5% and 10% respectively.

Note: The Number in Parentheses are the T-Statistics

The results of primary independent variables considered as corporate governance indicators indicate Board Size as a significant variable with a negative coefficient value (-0.385) in recent consolidated public sector banks thus suggesting that in public sector banks where the board size is larger, less consolidation is seen. In a way the consolidation in Public Sector banks space is a combination of negotiated and bailout takeovers where bigger banks have taken into their fold smaller banks. This makes a case for increasing size and scale of operations and opportunities and also benefitting from the inherent synergies on account of consolidation.

Results from the study further indicates a significant and negative coefficient value (-0.004) of Non-Executive Directors on consolidation suggesting larger the non-executive directors in Public sector banks, less are the chances of banks consolidation. The established canons of good governance are to have a larger composition of Non-Executive directors at the board level. They are also considered as guardians/watchdogs to uphold best practices of board governance. Our study has provided evidence to prove that larger the proportion of non-executive directors better are the governance practices and there is lesser chance of being a candidate for consolidation.

The variable Chairman/CEO Duality indicates significant relationship and positive coefficient value (0.245) on consolidation of public sector banks thus suggesting that consolidation in public sector banks is seen in most cases where there is Chairman/CEO Duality. Result shows that the recently consolidated public sector banks have showed a trend towards Chairman/CEO duality. As per listing norms there is no legal requirement for the separation of chairman of the Board position and CEO position. Therefore, the tradition the Government of India has established in all businesses where they have majority stake is to have chairman of the Board and CEO duality. On the other hand, leading banks in the private sector have voluntarily adopted chairman of the board and CEO separation as a part of their governance architecture. This is one area where public sector banks should follow their counterparts in the private sector. Internationally, banks which are active and having global presence have invariably adopted chairman of the Board and CEO separation. We therefore suggest Chairman of the Board and CEO separation progressively in the years to come as a case of good corporate governance practice.

The results of the primary variables used as firm performance variables indicates a significant relationship with a positive coefficient value (0.104) of GNPA on consolidation of recent banks suggesting that consolidation in public sector banks is seen in those cases where the Gross Net Performing assets are high. The trigger for consolidation of public sector banks is primarily comprising of asset quality issues. The GNPA's of many public sector banks have ballooned either because of the overall state of the economy or because of banks specific systemic issues. This has resulted in severe deterioration in the asset quality and our research has found that larger the GNPA greater is the likelihood of the bank consolidation. In fact, RBI has been at the forefront in implementing PCA (Prompt Corrective Action) norms of which GNPA is the one aspect.

Furthermore, both CRAR and ROA indicated insignificant results with coefficient values of (0.014) and (0.039). Return on assets and CRAR are not coming out to be significant in effecting the consolidation of PSB's. The reason for CRAR to be insignificant can be because of implementation of BASEL norms; all the banks are expected to maintain a minimum CRAR. Therefore, this variable is not impacting the banks consolidation. ROA has also showed insignificant results which only reiterates the poor financial results across many key financial indicators which has resulted in low profitability of the consolidated banks for many years.

Among the four control variables, age of the bank, deposit growth and leverage are significant whereas, size of the bank is not-significant. The results of deposit growth (DG) indicated a negative coefficient value (-0.016) suggesting more deposit growth is leading towards less consolidation among banks. Furthermore, Leverage which was calculated by dividing the bank's core capital (Tier-I capital) by Risk weighted Assets also indicated significant by negative coefficient value (-5.252) suggesting more capital with the bank makes the bank less prone towards consolidation. Age of the bank suggested a significant relationship and positive coefficient value (0.831) depicting that old banks have been consolidated in recent merger as compared to previous merged banks.

The value of adjusted R Square is 0.491 which suggests that 49.1 percent of dependent variable (Consolidation of Public sector banks) is getting explained by the

independent variables considered in the study. This implies that this model can be considered as a good fit.

5. Conclusion

Previous studies have indicated a large yawning gap and wide diversions in management governance of banks between private sector and the public sector[32]. The banks in the former category have outperformed in all financial and governance parameters compared to banks in the latter category. This is in spite of both the former and the latter category banks are lending to the same economy actors. Many of the problems of Public sector banks are structural in nature. Therefore, good corporate governance practices can help overcome structural problems. Government should quickly implement PJ Naik committee recommendations for reforming public sector banks. In the long run reducing the number of public sector banks will improve collective performance of the banking system in terms of economies of scale, utilization of capital and higher profitability. The revival of Indian economy is dependent on the financial health of the Indian Banking system, especially with the public sector banks. In this scenario public sector banks cannot lag in terms of performance indicators. It is the intent of Government of India to ensure financial stability of public sector banks through these mergers, in a way Government has addressed the issue of financial stability partially and more reforms are required at the corporate governance front of the public sector banks. Given the social outlook that public sector banks portray it is incumbent on them to be at the forefront of governance practices in order to cater to the diverse interest of various stakeholders connected with the banking system. We therefore recommend with our study for government to introduce some structural reforms at the boards of public sector banks. With the motive of financial inclusion, creating social capital and reaping social dividends, Indian Government went about in Nationalization of Banks. But, the reality is far from achieved. Basis our study we provide evidence that if governance of public sector banks is not fixed on priority basis any consolidation or reforms done with public sector banks does anot see any light, nor the Government efforts bear any fruit. Given the developments after the Covid-19 pandemic where tremendous stress is felt, both with the big corporates and also Small and Medium Enterprises (SME's), public sector banks are bound to face stress test. It is known that the financials of public sector banks were weak even before the Covid-19 crisis. In this situation we therefore suggest that governance reform at the board level of all public sector banks is the only sure way to come out of the crisis successfully.

The banking system in India is highly regulated and majorly run as public sector enterprises. The source of funding for these enterprises is coming from taxpayers' money. Therefore, the assumption that the governance of public sector enterprises should be at high standard backed by accountability is not true. In fact, the reality is the contrary to the assumption. The study finds that majority of the banks in private sector are well governed and managed with exception of the few and majority of the banks in the public sector are managed and governed poorly with exception of few. We therefore suggest that outsider model (separation of ownership and management) of governance is suitable for doing business in the banking sector rather than the insider model (owner is also the manager) of governance. So this

[32] Buelens, M. and Van den Broeck, H., (2007). An analysis of differences in work motivation between public and private sector organizations. *Public Administration Review*, Vol. 67, No. 1, pp.65-74.

calls for a fundamental shift in the approach in running public sector banks than conducting experimentation through consolidation of big public sector banks.

Management is about doing business, where quality management produces results in terms of revenues, business expansion, earnings, service quality, product innovation, product innovation etc. Management of public sector banks does not project a good picture on most of the financial indicators like NPA (asset quality) and profitability. In order to improve board governance and management of public sector banks attempt should be made to professionalize both the board functionaries and management personnel having transaction based experience, professional qualification and market driven executive compensation. Further both these important organs need to be empowered with no interference from political and bureaucratic pressures. We therefore conclude that the bank consolidation can be a success in achieving the intended outcome when the above mentioned measured are put in place.

6. Implications of the Study

Bigger doesn't necessarily mean better and stronger banks. Government is focusing upon the size factor (bigger) without paying attention to simplification of existing system and processes which are holding back public sector banks for decades[33].

Advantage of bank consolidation can be in terms of geographical location, product variety, service quality, harmony in forward and backward linkage to existing system. We observe that the current bank consolidation grossly falls short in the synergy aspect. In a highly competitive banking environment, scalability of the banking operations possesses big challenge for weak public sector banks. Consolidation will only add pressure to the existing weak financial matrix of these banks. The Government of India needs to address the issue of human capital of public sector banks through professional training, compensation and opportunities/rationalization of bank staff. Otherwise the financial risk of the banks can rise to gigantic proportions. Big banks have a capacity to lend more. Therefore, improvement in the overall credit off-take can help stabilize these banks, but during the transition period of the banks mergers there's a possibility of temporary disruption to bank lending. The current focus by Government of India towards Public sector bank consolidation is wrought with the challenges as listed above therefore, our study provides answers to meet these challenges with sound Corporate Governance Practices on the part of the Boards of the consolidated Public sector banks to achieve the intended goals and financial viability. It goes without saying, that any governance reform will boost investor confidence, customer confidence and enhance competitiveness. This is possible only with a combination of voluntary and legally mandated best practices in implementing governance norms by the respective Boards and the top management of banks.

Consolidated banks should pay attention to customer services in general and in particular relating to debit cards, credit cards, electronic mandates for EMI's. Human Resource Management is also another area of attention which public sector banks

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[33] Lee Rhodes, M., Biondi, L., Gomes, R., Melo, A.I., Ohemeng, F., Perez-Lopez, G., Rossi, A. and Sutiyono, W. (2012), "Current state of public sector performance management in seven selected countries", International *Journal of Productivity and Performance Management*, Vol. 61 No. 3, pp. 235-271. https://doi.org/10.1108/17410401211205632

should rationalize their staff with a possibility of layoffs, voluntary retirement scheme (VRS) to many[34]. It also calls for reskilling and retraining to existing staff. It is observed in general that in any mergers/acquisitions culture fit among the staff of the merged entities is the most vital component for the successful outcome of the merger, otherwise the flipside to lack of harmonization can have a drastic impact on the financial performance of the banks.

The following are the general pointers for good corporate governance practices in the banking sector which can go a long way in strengthening the financial performance in particular of public sector banks, thus, helping in achieving the intent of public sector bank consolidation.

Board Practices: The role and responsibilities of the Directors are well defined, Board is properly well structured with appropriate mix of skills, board procedures, and board evaluation and training is conducted at regular intervals; *Control Environment*: Risk manager framework in place; independent audit committee is formed; internal control procedures, internal audit function established, MIS has been established; *Disclosure Practices:* Financial and Non-financial information disclosed, high quality annual reports, Web based disclosure; *Investors Rights:* Policy towards the related party transaction, policy towards extra ordinary transaction, policy towards investor rights; *Board Commitment:* Regular discussion on corporate governance issue; corporate governance improvement plan, formalization of policy and procedures and training of staff.

Annexure 1. Description of Sample Banks

Recent Consolidated Public Sector Banks–2019	Previous Consolidated Public Sector Banks
1. Allahabad Bank 2. Andhra Bank 3. Canara Bank 4. Corporation Bank 5. Indian Bank 6. Oriental Bank of Commerce 7. Punjab National Bank 8. Syndicate Bank 9. Union Bank of India 10. United Bank of India	1. Bank of Baroda 2. Dena Bank [Merged] 3. Vijaya Bank [Merged] 4. State Bank of Bikaner & Jaipur [Merged] 5. State Bank of Hyderabad [Merged] 6. State Bank of India 7. State Bank of Mysore [Merged] 8. State Bank of Patiala [Merged] 9. State Bank of Travancore [Merged]

[34] Gomes, E., Angwin, D., Peter, E. and Mellahi, K., (2012). HRM issues and outcomes in African mergers and acquisitions: a study of the Nigerian banking sector. *The International Journal of Human Resource Management,* Vol. 23, No. 14, pp.2874-2900.

Annexure 2: Definition of Primary and Control Variables

Variable	Definition
Dependent Variable	
Consolidation of Public Sector Banks	PSB banks consolidation Dummy variable (1) for recent merged banks and (0) for previously consolidated banks.
Independent Variables	
Corporate Governance Factors	
Board Size (BS)	Size of the bank board: Number of board members in the public sector bank logarithm
Chairman/CEO Duality	Chairman/CEO Duality: Dummy variable which takes into consideration 1 if both the positions in the public sector bank are held by same person and 0 if both positions in the bank are held differently
Non-Executive Directors	Number of Non-Executive Directors in the bank
Firm Performance Factors	
Return on Assets (ROA)	Return of Assets, calculated as proportion of net profits to total assets.
Gross Non-performing Assets (GNPA)	Gross NPA denotes the ratio of gross non-performing assets (GNPA) to total advances of the public sector bank.
Capital to Risk Weighted Assets (CRAR)	CRAR denoted the capital adequacy ratio of a bank
Control Variables	
Age of Firm	Number of Years since incorporation of the company
Size	Bank Size indicates the natural logarithm of the assets of the bank
Deposit Growth (DG)	Deposit growth denotes the growth rate in the deposits of a bank.
Leverage	Leverage is calculated by Dividing the bank’s core capital i.e. Tier I capital by Risk Weighted Assets.