

Corporate Governance Practices in the Banking Sector: A Special Reference to Tirunelveli District

A. Abitha Barveen¹ and Fathima Farhana^{2*}

¹Assistant Professor of Commerce (Honours), Sadakathullah Appa College (Autonomous), Tirunelveli, Tamil Nadu

²Assistant Professor of Commerce (Finance), Sadakathullah Appa College (Autonomous), Tirunelveli, Tamil Nadu

*Corresponding Author Email: farhanalebbai@gmail.com

Abstract

Corporate governance has become a crucial element in ensuring transparency, accountability, and efficiency in the banking sector. Effective corporate governance practices strengthen management control, protect stakeholders' interests, and improve organizational performance. The present study examines the corporate governance practices followed by banks in Tirunelveli District and analyses their influence on banking efficiency and stakeholder confidence. Primary data were collected from 157 respondents using a structured questionnaire. Statistical tools such as Kaiser-Meyer-Olkin (KMO) test, Bartlett's Test of Sphericity, Factor Analysis, and Structural Equation Modeling (AMOS) were used to identify the major dimensions of corporate governance in the banking sector. The results reveal that transparency, board effectiveness, accountability, and ethical governance practices significantly contribute to improving corporate governance in banks. The study highlights the importance of strengthening governance mechanisms to ensure better management practices and sustainable growth in the banking sector.

Keywords: *Corporate Governance, Banking Sector, Transparency, Board Effectiveness, Accountability, Tirunelveli District*

Introduction

Corporate governance refers to the system of rules, policies, and practices through which organizations are directed and controlled. In the banking sector, corporate governance plays a critical role in maintaining financial stability, ensuring transparency, and safeguarding

the interests of stakeholders. Banks operate in a highly regulated environment where effective governance is essential for managing risks and maintaining public trust.

In recent years, corporate governance has gained increasing attention due to financial crises, corporate scandals, and regulatory reforms in the banking industry. Good governance practices ensure that banks operate ethically, maintain transparency in their financial reporting, and follow proper decision-making procedures. Strong governance frameworks also help banks in improving operational efficiency, risk management, and overall organizational performance.

In districts such as Tirunelveli, banks play a vital role in supporting economic development by providing financial services to individuals, businesses, and rural communities. Therefore, effective corporate governance practices are necessary to ensure accountability, maintain customer confidence, and improve the overall performance of banks. The present study attempts to analyse the corporate governance practices followed in the banking sector with special reference to Tirunelveli District.

Objectives of the Study

The study was conducted with the following objectives:

1. To examine the importance of corporate governance practices in the banking sector.
2. To identify the major dimensions of corporate governance in banks.
3. To analyse the relationship between corporate governance practices and banking performance.
4. To provide suggestions for strengthening corporate governance practices in banks.

Review of Literature

Giftson Solomon J. and D. Janis Bibiyana (2022) conducted a study to analyse the perception of branch managers towards risk management practices in selected nationalised and private sector banks in Tirunelveli District. The main objective of the study was to evaluate the effectiveness of risk management systems implemented by banks and to understand the views of branch managers regarding these practices. The study used both

primary and secondary data, and primary data were collected through a structured interview schedule administered to bank managers. Using judgement sampling technique, the researchers selected a sample of 100 branch managers, including 50 from nationalised banks and 50 from private sector banks. The analysis focused on various parameters of risk management systems, particularly in managing Non-Performing Assets (NPAs) across urban, semi-urban, and rural branches. The findings revealed that effective risk management practices play a significant role in controlling NPAs and improving the financial stability of banks. The study further emphasized that loan recovery could be improved if bank officials actively participate in recovery measures with greater responsibility and confidence.

C. Paramasivan and P. Mari Selvam examined the issue of bank finance to priority sectors with special reference to Tirunelveli District. Their study highlighted that the concept of Priority Sector Lending (PSL) was introduced to ensure that institutional finance from the banking system flows adequately to important sectors of the economy, particularly those that had previously received limited financial support. The research emphasized that sectors such as agriculture and small-scale industries still face challenges in obtaining timely and sufficient financial assistance for expanding their activities. The study focused on the role of commercial banks in providing credit to priority sectors over a specific period, analysing aspects such as the extent of financial assistance, recovery performance of loans, and the operational difficulties faced by bankers in implementing priority sector lending policies. The findings indicated that while commercial banks have made efforts to extend financial support to priority sectors, several challenges remain in terms of credit distribution, loan recovery, and effective implementation of lending policies. The study concluded that improving credit delivery mechanisms and strengthening monitoring systems are essential to enhance the effectiveness of priority sector lending and support the economic development of the region.

B. Revathy and A. Anitha (2018) conducted a comparative study on the services provided by public sector banks and private sector banks in Tirunelveli District. The study emphasized the importance of banks in mobilizing savings, ensuring financial security, and supporting the economic development of the nation. Using a survey research method, the study analysed the banking services offered to customers and examined the role of banks in

meeting the financial needs of individuals and businesses. The research highlighted that banks provide various services such as deposit facilities, loans, payment of utility bills, credit cards, and other retail banking services for individual customers, while corporate banking services cater to business clients through activities like bill discounting, letters of credit, and cash management. The study concluded that both public sector and private sector banks play a significant role in economic growth by offering diversified financial services, and the development of technology-based banking has further improved the efficiency and accessibility of banking services for customers.

Research Methodology

Research Design

The study adopts a descriptive research design to analyse corporate governance practices in the banking sector.

Area of Study

The study was conducted among banking professionals and customers in Tirunelveli District.

Sources of Data

The study is based on both primary and secondary data.

- **Primary Data:** Collected using a structured questionnaire.
- **Secondary Data:** Collected from books, journals, banking reports, and websites.
-

Sample Size

A total of 157 respondents were selected using convenience sampling method.

Tools for Analysis

The following statistical tools were used:

- Percentage Analysis
- KMO and Bartlett's Test
- Factor Analysis
- Structural Equation Modeling (AMOS)

Table 1: KMO and Bartlett's Test

KMO and Bartlett's Test	Value
Kaiser-Meyer-Olkin Measure of Sampling Adequacy	0.846
Bartlett's Test of Sphericity Approx. Chi-Square	518.742
Df	28
Significance	0.000

Source: SPSS Output

The Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy and Bartlett's Test of Sphericity were conducted to determine the suitability of the data for factor analysis. The KMO value is 0.846, which is higher than the recommended threshold value of 0.50, indicating that the sample size of 157 respondents is adequate and that the variables share sufficient common variance for performing factor analysis. In addition, the Bartlett's Test of Sphericity shows an approximate Chi-square value of 518.742 with 28 degrees of freedom, and the significance level is 0.000, which is less than 0.05. This result indicates that the correlation matrix is not an identity matrix and that there are significant correlations among the variables. Therefore, the results confirm that the data are appropriate and suitable for applying factor analysis to identify the underlying dimensions of corporate governance practices in the banking sector.

Table 2: Total Variance Explained

Factor	Eigen Value	Variance %	Cumulative %
Transparency	3.624	30.20	30.20
Accountability	2.248	18.73	48.93
Board Effectiveness	1.768	14.73	63.66
Ethical Governance	1.334	11.12	74.78

Source: SPSS Output

Table 3: Rotated Component Matrix

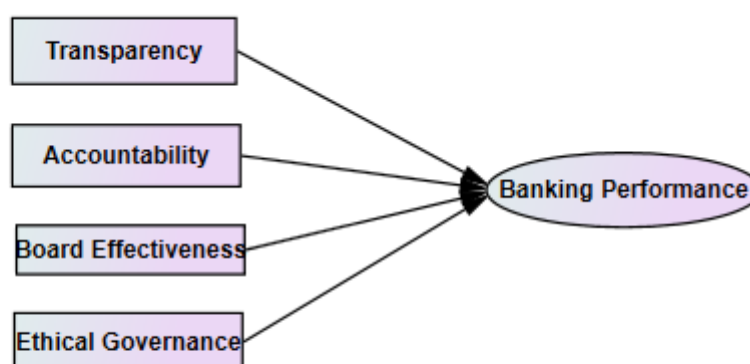
Variables	Transparency	Accountability	Board Effectiveness	Ethical Governance
Disclosure of financial information	0.824			
Transparent reporting practices	0.801			
Management accountability		0.786		
Clear governance policies		0.768		
Effective board supervision			0.792	
Independent board members			0.774	
Ethical leadership				0.756
Compliance with banking regulations				0.738

Source: SPSS Output

The Rotated Component Matrix obtained from factor analysis identifies the key dimensions of corporate governance practices in the banking sector. The variables are grouped into four major factors based on their high factor loadings. The first factor, Transparency, includes disclosure of financial information (0.824) and transparent reporting practices (0.801), indicating that openness in financial reporting and information disclosure is an important aspect of effective corporate governance in banks. The second factor, Accountability, consists of management accountability (0.786) and clear governance policies (0.768), highlighting the importance of well-defined responsibilities and accountability mechanisms in banking management. The third factor, Board Effectiveness, includes

effective board supervision (0.792) and independent board members (0.774), which emphasizes the role of strong board oversight and independence in ensuring sound governance practices. The fourth factor, Ethical Governance, comprises ethical leadership (0.756) and compliance with banking regulations (0.738), reflecting the significance of ethical standards and regulatory compliance in maintaining responsible banking operations. Overall, the factor analysis reveals that these four dimensions significantly contribute to strengthening corporate governance practices in the banking sector.

Relationship Between Corporate Governance Factors and Banking Performance



RELATIONSHIP BETWEEN CORPORATE GOVERNANCE FACTORS AND BANKING PERFORMANCE

Limitations of the Study

1. The study is limited to Tirunelveli District, and the results may not represent other regions.
2. The sample size is restricted to 157 respondents.
3. The study considers only selected corporate governance dimensions.
4. The analysis is based on respondents' perceptions which may include personal bias.

Suggestions

1. Banks should strengthen transparency in financial reporting and governance practices.
2. Independent directors should be appointed to improve board effectiveness.

3. Banks should enhance accountability mechanisms in management decisions.
4. Ethical governance practices should be promoted through training and awareness programs.
5. Regular corporate governance audits should be conducted to ensure compliance with banking regulations.

Conclusion

Corporate governance plays a vital role in ensuring transparency, accountability, and ethical management practices in the banking sector. The findings of the study reveal that governance dimensions such as transparency, accountability, board effectiveness, and ethical governance significantly contribute to improving the performance of banks. Strengthening corporate governance practices not only enhances operational efficiency but also builds trust among stakeholders and customers. Therefore, banks in Tirunelveli District should focus on implementing strong governance frameworks to achieve sustainable growth and maintain financial stability in the competitive banking environment.

References

- 1) Bibiyana, D. J. (2022). *A Study On Perception Of Branch Managers Towards Risk Management Practices Of Selected Nationalised And Private Banks In Tirunelveli District. Special Education, 1(43).*
- 2) Revathy, B. (2018). *A Comparative Study on Services Provided by Public Sector Banks and Private Sector Banks in Tirunelveli District* Dr. B. Revathy** A. Anitha. International Journal of Research in Economics and Social Sciences (Ijress), 8(2).*
- 3) Abraham, G. S. (2014). *A Study on Customers' perception Towards Service Quality of Banking Sector in Tirunelveli District (Doctoral Dissertation, Manonmaniam Sundaranar University Tirunelveli).*
- 4) Paramasivan, C., & Selvam, P. M. *Bank Finance to Priority Sectors in Tirunelveli District, Tamil Nadu.*