

Working Capital Management and Corporate Governance Impact on Financial Performance of the Public Sector Banks in India

1 Sathish Kotte , 2 Dr. Irala Lokanandha Reddy

1Research Scholar, School of management of studies University of Hyderabad,Telangana,India.

2Associate Professor, School of management of studies University of Hyderabad, Hyderabad, Telangana, India.

Abstract

Purpose – The main purpose of the research is to determine the impact of working capital management and governance in the performance of public banking sectors in India. This study look at two things: one, the individual impact on the banks efficiency of working capital management and corporate governance; and two, the collective impact of working capital management and corporate governance on profitability of public sector banks in India.

Design/methodology/approach – For the purpose of the study, secondary data collection method is used. The study uses data from governmental publications, websites of banks, and annual reports of economic and corporate governance from selected banks. The study uses data of eight financial years from 2010-11 to 2018-19. It also deploys longitudinal regression to ascertain firm profitability financial annual reports.

Findings – The paper provides empirical insights with regard to the collective effect of corporate governance and working capital management on financial performance. It suggests that Indian public sector banks should consider both short-term (WCM) and long-term (CG) indicators. It also shows that both working capital management and corporate governance performance are essential in estimating financial performance in Indian public sector banks.

Research limitations/implications–The research has the future scope to study the generalization of findings beyond public sector banks in India. It can be further extended to include both public and private banks, and cross-country comparison of public and private banks.

This paper fulfils the alliance with working capital management and governance on Performance of public banking sectors in India.

Key Words: Working Capital Management, Corporate Governance, Profitability, India, Public Sector Banks, Financial Performance.

Introduction:

Working capital management is a necessary element in the administration of a company's financial management. It is important for reasons such as determining the structure of the capital for the operation and investment in companies. A company with excessive current assets could have low return on investment and a company with less current assets could experience lack of supply and difficulty in keeping its operations smooth (Horne Filbeck and Krueger (2005). Nwankwo and Osho (2010) argued that working capital management plays a major part in maximizing shareholder value in the corporate strategy as a whole. Maximization of shareholder property consists of identifying the proportions of both current and short term assets. Efficient management of working capital requires the scheduling and monitoring of current assets, reducing the risk of unavailability to comply with short-term financial responsibilities and avoiding unnecessary investment in current assets (Eljelly (2004).The management of working capital that deals with current assets and liabilities has direct consequences on the stability and competitiveness of a company. The current assets are assets that generally return cash within a period of one year in the normal course of business. The assets also include temporary investments that are readily converted into cash on a necessity basis (Raheman and Nasr (2007). In addition, current liabilities include commitments which are normally paid in the form of cash within a short period and the timeframe is typically a year. They also include liabilities which can be readily paid in cash upon the need for the quality of business activities during a normal course of business. The management of the working capital of a company partly affects its profitability.

In the past, most of the financial decisions of a business were made based on capital structure, capital budgeting and dividends policies. It was only recently that businesses across the industries have become aware about the importance of a successful working capital management for a firm's growth and sustainability (Şen, Köksal, and Oruç (2009). Tsagem, Aripin, and Ishak (2014). D. Ali (2018) studied the impact of working capital management and its components on the performance of the banks in the UK. The study included ten banking companies and the timeframe chosen for the study was 2000 to 2017.

In the era of liberalization and globalization, corporate governance has become very important for banks to operate and compete. In modern times, globalization has become a core factor in increasing the confidence of investors, boosting productivity and, finally,

boosting economic growth. It contains a set of processes, customs, policies, laws and institutions that affect the governance, management and control of a company.

Corporate governance currently includes not only the interests of the investors but also many stakeholders that include staff, consumers, suppliers and the public. It also takes into account the legal and regulatory requirements, and the environmental and local community needs to a large extent. Due to the unique position of banks, the governments and managers are also investors in the national and local economies, and in the financial systems. A strong framework for corporate governance enhances corporate health, and therefore increases domestic competitiveness Podile and Sree (2015). "Corporate governance is defined as the mechanism for setting the goals and objectives of company and the means for achieving those goals and objectives. It involves the relationships among a company's top management, board of directors, shareholders, and other stakeholders such as employees and customers OECD (2004)". This research explores the effect of working capital and corporate governance on the financial performance of Indian public sector banks.

Theoretical analysis:

A theory provides a framework to a study, and it explains the related principles and hypotheses for the analysis. The present study uses two theories: organization theory, and stewardship theory.

Theory of agency

Agency theory is essential in the corporate governance. Agency theory assumes that there is a relationship between the employee (principal) and employer (agent) of an organization. When an agent act for the principal, it includes a comparison of the conduct of success in the interest of the principal or in other words, acting as the agent of the principal (Fayezi, Wilding, O'Loughlin, and Zutshi (2012). Focus on multiple corporate governance systems defined by a large number of shareholders, allowing a group of individuals to control and manage their assets in the company for their future profits. It is regarded as one of the most established theories on economics and management (Panda & Leepsa, 2017).

(Berle & Means, 1991) introduced a discourse on the division of ownership and company management in the United States. (William & Michael, 1976) Theoretical aspects of business, property rights theory and finance theory are incorporated to build the ownership structure of companies. The theory has been found useful in a number of disciplines for investigating the relationship between principals and agents. Ronen used agency theory in management accounting (year). (Bergen, Dutta, & Walker Jr, 1992) The business implications of agency theory are made clear by its key conceptual explanation. (Fama & Jensen, 1983) Theory has been developed that focuses on the steps in the organizational decision-making process and the creation of tools to manage agency policy-making issues within the system. Agency speculation is becoming increasingly dynamic in corporate governance. The theory is essential because it provides the basis for policy-making with regard to suitable organizational governance.

Stewardship Theory

Stewardship theory (Davis et al., 1997; Donaldson & Davis, 1980, 1991) provides a normative perspective into the nature of the Managers that serves as an alternative to agency theory. While stewardship theory has borrowed some of the same terms commonly used in agency theory research, such as "agent," "principal," and "alignment," radically different roles are assumed. These terms will be used to describe executive - shareholder relations under either an agency or stewardship governance structure. Grounded in psychology, sociology, and leadership theories, Stewardship theory argues for the possible alignment between principals and agents which is reflective of a psychological contract (Schein, 1965 ; Yan, Zhu, & Hall, 2002) or a close relationship (Uzzi, 1996), with agents behaving in a community-focused manner, directing trustworthy and or Stewardship – oriented leaders derive utility by serving the needs of the corporation and its stakeholders rather than by pursuing short term opportunism at their employers expense (Davis, et al., 1997; Frank, 1988).

Review of Literature

Numerous studies have been conducted on the management of working capital and corporate governance in relation to company profitability. Deloof (2003) looked at Belgian business market and examined how profitability impacted the efficiency of a business in terms of WCM. The findings showed that there was a significant negative correlation connecting stock days, account receivable days, and net operating income account payables. The study showed that shareholder interests can be increased by increasing number of days and stock days for receivables.

Filbeck and Krueger (2005) analyzed the information data of 970 companies from 26 industries for the period 1996-1999. The study showed that companies were able to cut down on their costs to finance development projects, and increase the funds available to them by decreasing the amount of working capital invested.

A study conducted by Azam and Haider (2011) found that the profitability and liquidity of the surveyed companies in UK had a negative correlation, and the business profitability had a positive link with their debts. Lazaridis and Tryfonidis (2006) studied the business performance of WCM in Athens Stock Exchange with a selection of 131 listed companies. The results of the study demonstrated that a negative correlation connected the CCC, company leverage and companies 'profitability. However, fixed financial assets share a positive relationship between profitability and receivables, a negative relationship between inventory life and profitability.

A study conducted by Khan (2014) showed that a company's profits might be changed by managing the cash conversion cycle (CCC).

A. Gill, Biger, and Mathur (2010) analyzed the relation of WCM to US manufacturing companies in the New York Exchange. The results of the study showed that a positive connection exist between CCC and business effectiveness, a negative connection involving the debt collection process and corporate profitability, and insignificant associations with profitability among the stocks hold periods (SHP). There was no empirical correlation between accounts payable and business profitability. The study found that the profitability of a company can be enhanced by reducing debt and managing the cycle of cash conversion (CCE) more efficiently. Correspondingly, Samson, Mary, and Yemisi (2012) analysis showed that a perfect correlation between WCM and profit margin, as well as a negative correlation with WCM and gross profit margin.

Benjamin and Samuel (2012) examined the potential impact of WCM on the profitability of banks in Ghana for the period 2005 to 2010. The findings suggested that the cash conversion cycle was inversely correlated to the profitability of banks, and that bank leverage had a positive effect on profitability. Additional studies conducted by Umoren and Udo (2015) examined the effect of WCM on the performance of 22 selected banks in Nigeria. The study found that the earnings of the bank reversed to CCC and leverage. The analysis also showed that the negative effects on the bank's liquidity by creditors' payment terms, levies, money transfers and credit risks. Yahaya and Bala (2015) argued that working capital is a company's lifeblood. The researchers used an unusual technique of re-examination of the impact of WCM on the financial performance of Nigerian banks for the period 2007-2013. The analysis tests components of working capital management (WCM) (the tests components used in the analysis of working capital management) by cash ratio, quick ratio, and current ratio. The results showed that there was a positive correlation between the current and quick ratios and returns on assets, while the cash ratio was related to effectiveness. Kaur and Singh (2013) studied the effective organization of Bombay Stock Exchange by analyzing the 200 firm's working capital. A company's working capital score was determined using three parameters: normalized cash conversion efficiency value (CCE), working capital day, and operating cycle day. The study showed that successful working capital management profitability had a significant impact on banking performance.

The ownership structure in corporate control is a key factor that affects corporate performance Yusoff and Alhaji (2012). According to William and Michael (1976), in capital investment, the ownership structure is specified.

A study by Jensen (1993) found that small boards were more effective in management observations and to take decisions. Ujunwa (2012) reported that there was a negative relation between the executive board size and a company's performance. Also, Kumar and Singh (2013) showed that there was a negative relationship between management size and the efficiency of Indian firms. On the other hand, Abor (2007) found that because of diversity and a wide range of experience between directors, a larger board of directors was better and more efficient. Abor also added that CEOs tend to dominate the Board of Directors more strongly. Additionally, Mollah, Al Farooque, and Karim (2012), and Qureshi, Rasli, and Zaman (2014) argued that the board size and company performance share a positive relationship.

Corporate governance plays an important role by formulating sound strategies to control working capital. CEO duality and board size help maintain a suitable level of corporate working capital (A. Gill and Shah (2011). CEO tenure also helps to improve the management of working capital. Dahya and Travlos (2000), explained that CEOs a System to Provide Benefit and Protect High Corporate Liquidity Position. The CEO and the Board of Directors also established policies, including policies relating to working capital management. Yermack (1996), and Lipton and Lorsch (1992) argued that in the decision-making process a small board would be more effective than a larger board of directors. On the contrary, Kyereboah-Coleman (2008) argued that small board sizes should be encouraged to facilitate good communication and decision-making.

The audit committee provides another tool for corporate governance that improves the quality of the financial management of a business. A study by Kyereboah-Coleman (2008) showed that the audit committee should have a minimum size of three members in order to increase transparency. According to Kyereboah-Coleman (2008), a CEO who has been with a company for long would act as an additional incentive to support the interests of investors. This was possible because the CEO has the opportunity to witness the outcomes of the decisions taken. In this regard, longer tenure would have a positive effect on the productivity of WCM. The results indicated, in particular, that corporate governance plays an important function in increasing working capital performance.

Ahmad, Ahmed, and Samim (2018) argued that business management variables have a significant influence on the productivity of working capital. A study conducted by B. Ali (2017)

The audit committee found that impact; board size and gender influences make good use of WC.

Njoku (2017) showed that work-capital management was closely connected with the board and audit committee, while durability of CEO and duality of CEOs were not linked to working-capital management. Kengatharan and Tissera (2016) showed that there was a clear positive association between the business management and the work capital management aspects of the CCC. Al-Rahahleh (2016) showed that the transfer period of cash adversely impacted the corporate governance performance.

Goel, Bansal, and Sharma (2015) analysis showed that an expansion in board and audit committee autonomy contributed to taking a balanced approach to short-term capital management, which had a negative impact on the quality of working capital. The study also showed that power of a company weakened with the rise in board size. Chaudhry and Ahmad (2015) found that governance practices significantly affected work capital management efficiency. A study conducted by Mansour, Seid and Rahmatollah's B. Ali (2017) reported that the duality of CEO and corporate ownership affected receivable accounts, accounts payable, stock, CCC and current ratio. However, it found that CEO tenure had no impact on the efficiency of CCC. Kamel (2016) showed that both governance practices and organizational maturity are relevant factors that affect the efficiency of management of working capital.

Kamau and Basweti (2013) in their studies showed that governance and work capital management results were statistically relevant in the selected companies. According to A. S. Gill and Biger (2013), the duality of CEO and the internationalization of the company have shown that they improve the ability to control receivables and payables accounts, improving the company's internationalization inventory and CCC management capabilities. The tenure of CEO, the size and the financial performance of a company in the management of cash, and the ability to improve the current ratio and CEO duality and improve the financial performance of the direct impact in cash conversation performance. A study conducted by C. R, Mbekomize, Mapharing, and Selinkie (2018) indicated a vibrant bond between governance and management of working capital, significant and clear positive influence on the inventory interaction and the cash conversion process of corporate governance frameworks. Therefore, the Board of Directors would work closely with management to make sure that effective working capital decisions are made to boost shareholder value.

Organizations aim to achieve their financial goals by utilizing the WC mechanism effectively. To fulfill these goals, organizations need to have a systematic reporting process. This organizational structure is called CG. Its aim is to ensure oversight and accountability for everyone involved in the drafting and implementation of policies. As a result, companies also need to implement good governance in addition to effective working capital management to achieve better financial performance (FP). Since WCM and governance impact efficiency financially, inefficient management of work capital and weak governance would have negative consequences for financial performance (A. Gill and Shah (2011) and Tsagem et al. (2014).

In addition, poor corporate governance may impact working capital management components. With respect to financial performance, a company's business director typically has a lot more interest in achieving financial performance in short term and not in long term. Yet share holders are now interested in continuing growth. Since temporary performances make bankruptcy avoidable, it is necessary to calculate long-term performance because it provides an overall performance O'Regan and Ghobadian (2004). A study claimed that short-term financial performance is influenced by working capital management (Talonpoika, Kärri, Pirttilä, and Monto (2016), governance has a long-term outcome on financial performance (Sila, Gonzalez, and Hagendorff (2016). In the previous studies, it is argued that working capital and general governance have individual effects on financial statements. However, existing literature have neglect the cumulative effect on significant financial stability of working capital management and corporate management to determine short-term and long-term influences on the profitability of corporation.

Present studies into utilization of working capital and governance has provided an analytical and conceptual contribution to financial performance, but it has generally ignored the dynamic affects. Companies use income to create internal resources in keeping with the order of pecking and the theories of resources. According to Ross, Westerfield, Jordan, and Roberts (2007), profit is the main source of a company's internal financing. However, debt and equity funding help cover regular operating costs. The main role of working capital is to fund these costs and corporate governance allows companies to make financial decisions (Abor (2007). Therefore, companies consider operation of working capital and governance when making business-related financial decisions with the goal of maximizing efficiency.

Thus, unlike in previous literature, this study highlights the group's empirical impact on financial performance of working capital and corporate governance; and individual relationships between working capital management and financial performance, corporate governance and financial performance for public sector banks in India. This study puts together new knowledge of the collective influence neglected in earlier studies. It helps to determine whether the results in public sector banks in India are short and long term. The objective of the study is to improve and measure financing performance in public sector banks in India by collectively implementing efficient WCM and CG practices.

Data and Methodology:

The data for all the factors in finance and governance for working capital management and corporate governance for the period 2010 to 2019 are generated from relevant bank websites, corporate governance documents, and annual reports of selected banks. The influence of working capital management and corporate governance on financial efficiency is analyzed by using linear regression based on OLS, random effect and estimation of fixed effects (Tsagem et al. (2014) and Aktas, Croci, and Petmezas (2015). Therefore, they used System Generalized Method of Moments (SGMM), a superior method for endogeneity management Sila et al. (2016) and Amira, Mouldi, and Feridun (2013).

$$FPit = \alpha + \beta1BCCCit + \beta2BCPit + \beta3BPPit + \beta4FSIZEit + \beta5LEVit + eit \quad (1)$$

$$FPit = \alpha + \beta1CEODit + \beta2BSIZEit + \beta3BMit + \beta4ACSit + \beta5ACMit + \beta6FSIZEit + \beta7LEVit + eit \quad (2)$$

$$FPit = \alpha + \beta1BCCCit + \beta2BCPit + \beta3BPPit + \beta4CEODit + \beta5BSIZEit + \beta6BMit + \beta7ACSit + \beta8ACMit + \beta9FSIZEit + \beta10LEVit + eit \quad (3)$$

Where ROA and ROE are dependent variables representing financial performance (FP), α ; is the represent the value, BCCC; Bank cash conversation cycle, BCP; Bank collection period, BPP; Bank payment period, CEOD; CEO Duality, BSIZE; Board size, BM; Board meetings, ACS; Audit committee size, ACM; Audit committee meetings, FSIZE; Firm size, LEV; Leverages, β ; Interception of the equations, e ; error.

Result and Discussion:

Descriptive Statistics

Summary of statistics, Public Sectors Banks(Selected) 2010-2019							
Variable	Obs	Mean	Std.Dev.	Min	Max	Skewness	Kurtosis
ROA	190	0.1445072	1.012125	-4.82091	3.392863	-1.222375	6.649983
ROE	190	196.0548	535.0807	-2224.69	2062.03	0.303914	6.173113
CEO Duality	190	0.8263158	0.3798386	0	1	-1.722721	3.967767
Board Size	190	11.46316	2.8333	6	21	-0.1908923	4.781456
Board Meetings	190	13.67368	3.03225	6	28	-0.4502242	7.132953
Audit Committee Size	190	6.457895	1.6670	4	12	0.2245544	5.053499
Audit Meetings	190	10.76632	2.752362	6	25	0.8421112	9.305484
BCP	190	3.679854	0.0892513	3.152624	4.022254	0.803345	9.738582
BPP	190	3.773271	0.1522403	2.166691	4.525747	1.695278	21.42626
BCCC	190	.7338751	0.054379	0.6769965	0.8171049	0.653651	3.882277
Bank Size	189	5.427825	0.3244981	4.753314	6.563037	0.8734893	4.358446
Lev	189	91.37157	1.396011	86.08896	93.70803	-1.556977	5.804195

Where ROA is the dependent variables representing financial performance (FP), BCCC; Bank cash conversation cycle, BCP; Bank collection period, BPP; Bank payment period, CEOD; CEO Duality, BSIZE; Board size, BM; Board meetings, ACS; Audit committee size, ACM; Audit committee meetings, FSIZE; Firm size, LEV; Leverages.

The results of the statistical explanations of the variables used here analysis. ROA has -4.82091 and 3.3929 as minimum and maximum values with a mean value of 0.1445072 and standard deviation of 1.012125; and the skewness measures the degree of asymmetric. The particular series of the normal skewness value is “0”, so the ROA is negative skewness -1.222375. The kurtosis value is 6.649983, ROA is clearly leptokurtic because the normal distribution kurtosis value is 3. The ROE has -2224.69 and 2062.03 as minimum and maximum values, the average value is 196.0548 and standard deviation of 535.0807 and ROE has a mirror normal skewness (because 0.303914 > 0) and Leptokurtic (because 6.173113 > 3).

The mean value of CEO duality is 0.8263, the deviation of the sample mean is 0.3798, the minimum and maximum members are 0 and the 1 and CEO has a long-left tail (Negative Skewness because -1.722721 < 0) and Leptokurtic (because 3.967767 > 3). The Board Size has 6 and 21 as lowest and highest values, the average value is 11.46316 and the standard deviation of 12.8333, the Board Size has a mirror normal skewness (because 0.1908923 > 0) and Leptokurtic (because 4.781456 > 3) . The Board Meetings has 6 and 28 as minimum and maximum values, the average value 13.67368 and standard deviation of 3.03225, the Board Meetings has a mirror normal Skewness (because 0.4502242 > 0)and Leptokurtic (because 7.132953 > 3). Audit Committee Size has 4 and 12 as minimum and maximum value, the average value 6.457895and standard deviation of 1.6670, the Audit Committee Size has a mirror normal Skewness (because 0.2245544 > 0) and Leptokurtic (because 5.053499 > 3).The Audit Meetings has a 6 and 25 as minimum and maximum values with a mean value of 10.76632and standard deviation is 2.752362, the Audit Meetings has a mirror normal Skewness (because 0.8421112 > 0) and Leptokurtic (because 9.305484 > 3).

The mean value of Bank collection period 3.679854 the deviation of the sample mean is 0.0892513, the minimum of the collection period in the series is 3.152624 and the highest collection period is 4 and Bank collection period has a mirror normal Skewness (because 0.803345 > 0)and Leptokurtic (because 9.738582 > 3). The mean value of Bank Payment period 3.773271 the deviation of the sample mean is 0.1522403, the minimum of the Paymentperiod in the series is 2 and the highest Payment period is 4 and Bank Payment periodhas a Long - right tail or Positive Skewness (because 1.695278 > 0)and Leptokurtic (because 21.42626 > 3

). The mean value of Bank cash conversion cycle 0.7338751 the deviation of the sample mean is 0.054379, the minimum of the cash conversion in the series is 0.6769965 and the highest cash conversion is 0.8171049 and Bank cash conversion cycle has a mirror normal Skewness (because $0.653651 > 0$) and Leptokurtic (because $3.882277 > 3$).

The Bank Size has 4.753314 and 6.563037 as minimum and maximum value with a mean value of 5.427825 and standard deviation of 0.3244981 and Bank Size has a mirror normal skewness (because $0.8734893 > 0$) and Leptokurtic (because $4.358446 > 3$). The mean value of Leverages 91.37157 the deviation of the sample mean is 1.396011, the minimum of the value in the series is 86.08896 and the highest value is 93.70803 and Leverages has a long-left tail (Negative Skewness because $-1.556977 < 0$) and Leptokurtic (because $5.804195 > 3$).

Regression Analysis Result

	Corporate Governance(CG)			Working Capital Management (WCM)			WCM & CG		
	OLS	Fixed effect	SGMM	OLS	Fixed Effect	SGMM	OLS	Fixed Effect	SGMM
<i>ROAt-1</i>	(1)	(2)	(4)	(5)	(6)	(8)	(9)	(10)	(12)
<i>CEO</i>	-0.0126 (0.955)	0.2676 (0.187)	-0.4368 (0.348)				0.2058 (0.392)	0.1582 (0.443)	1.2931*** (0.007)
<i>BOS</i>	0.0621** (0.026)	0.0699** (0.034)	-0.1622** (0.051)				0.0596** (0.033)	0.0606* (0.065)	-0.3876** (0.019)
<i>BOM</i>	- 0.0673** (0.014)	-0.1063*** (0.000)	0.1372 (0.192)				-0.0575** (0.035)	-0.1013*** (0.000)	0.1579 (0.155)
<i>ACS</i>	0.1256** * (0.006)	0.1062** (0.028)	0.1115*** (0.003)				0.1231*** (0.006)	0.0803* (0.099)	0.6718** (0.019)
<i>ACM</i>	-0.0147 (0.610)	-0.0278 (0.306)	-0.3968*** (0.000)				-0.0103 (0.720)	-0.0292 (0.281)	-0.0586 (0.744)
<i>BCCC</i>				- 172.1127 (0.012)* *	210.0609 (0.046)**	-660.1959* (0.078)	-181.8914 (0.011)**	66.1163 (0.536)	- 2383.722** * (0.000)
<i>BCP</i>				0.1473 (0.881)	-3.6826*** (0.000)	4.2259* (0.070)	0.8197 (0.408)	-2.6608*** (0.007)	19.4481** (0.011)
<i>BPP</i>				-0.7284 (0.370)	0.2654 (0.733)	-9.6540*** (0.001)	-0.6338 (0.425)	0.3107 (0.678)	- 28.7577*** (0.000)
<i>BAS</i>	- 0.4054** (0.172)	-3.2962*** (0.000)	-1.3198 (0.205)	13.2008* * (0.014)	-21.3968** (0.013)	51.8926* (0.077)	14.0444** (0.013)	-9.0802 (0.301)	187.7773** * (0.000)
<i>Lev</i>	-0.0027 (0.962)	0.2371*** (0.002)	-0.3068** (0.019)	0.0143 (0.816)	0.2023** (0.011)	0.1434 (0.136)	0.0419 (0.490)	0.2325*** (0.002)	-0.4459** (0.160)
Adjusted R2	0.0750			0.0288			0.0951		
<i>Hansen J</i>			0.664			0.211			0.999
<i>Hansen J.Diff</i>			0.302			0.087			0.796
<i>AR1</i>			0.053			0.000			0.037
<i>AR2</i>			0.460			0.225			0.876
<i>No.of. Obs</i>	189	189	170	189	189	170	189	189	170

Note: The table presents standard coefficient values (p-values in brackets) *** ** and * denote statistical significance at 1%, 5% and 10% respectively. AR (1) shows values for first order test for autocorrelation, AR (2) is the test for second-order autocorrelation, Hansen J is test for identifying valid instruments and Hansen. J. Diff is difference test for exogeneity. However, No. INST and Obs.

Regression tests with OLS, Fixed-Effect and SGMM estimation techniques.

The results show that public sector banks in the Indian market have successfully developed the Working Capital Management Component (BCCC) Bank Cash Conversion Cycle, Bank Cash Conversion Cycles (BCCC), Bank Collection Periods (BCP) and

financial performance. It indicates that the time has been minimized BCCC & BCP contributes to rising the financial performance of the public sector banks in India. The findings indicate with the WCM elements Enqvist, Graham, and Nikkinen (2014) and Kayani, De Silva, and Gan (2019).

Corporate Governance effects financial performance but CEO Duality has no significant relation to FP. Board Size (BOS) has a significant relationship with financial performance. FP indicates that if the total number of board members is lower, the financial performance of Indian public banks improves. Board Meetings (BOM) have a negative significant relationship with the financial performance. With regard to audit committee Size (ACS), it has a positive significant relationship with the financial performance. And with regard to Audit Committee Meetings (ACM), it has a negative relationship with financial performance. This finding confirms that public sector banks in India already have well-established expectations and their performance will meet certain expectations. This explains the results that there is no significant financial relationship to the CEO duality. The CG findings are in line with Cavaco, Crifo, Rebérioux, and Roudaut (2017), Haldar et al. (2018) and Kayani et al. (2019).

This research mostly looked at the mutual impact of working capital management and corporate governance on financial performance and their connection to each other. The outcomes generate the conclusions of a particular relation stuck between working capital management and financial performance, corporate governance and financial performance. The results show that financial performance outside of the public sector banks in India requires both efficient working capital and corporate governance values. The use of both short and long-term (indicators) suggests that financial performance is better interpreted rather than being dependent on individual results.

The flexible outcomes are demonstrated in different ways. We use SGMM to address the most ignored endogenous problem, although, as discussed in the data and methodology section, the results shown by OLS and FE are identical to those obtained by SGMM. Consequently, the findings are also stable using ROA's calculation of financial efficiency. These findings for public sector banks support the argument that businesses are using resource-based value and packing order theories, when financial decision making on working capital management and corporate governance to build internal investments that contribute to good financial performance.

Conclusion:

In terms of responsibility for both the management of working capital and financial performance, BCCC, BCP, BPP. BCCC and BCP have an inverse correlation and the observations are consistent for those suggested by Enqvist et al. (2014) for Finland; A. Gill et al. (2010) and Kayani et al. (2019) for the US firms. Whereas in the case of corporate governance determinates, CEO duality and ACM is, there has no significant correlation to financial performance. BOS and ACS have a positive significant affiliation with profitability. BOM has a negative relationship. The finding of corporate governance is in line with Ghosh (2006), Jiraporn and Nimmanunta (2017), and Dang A, Houanti, Ammari, and Lê (2017).

Finally, the collective effect of corporate governance and working capital management on financial performance. In terms of evaluation and improvement of financial performance, the findings of the study show that Indian public sector banks should consider both short-term (WCM) and long-term (CG) indicators. The study further shows that both working capital management and corporate governance performance are essential in estimating the financial performance in Indian public sector banks.

Without these two business tools, there will not be any sufficient details on the results of the financial company. Therefore, companies that have cooperatively adopted corporate governance and working capital management will be able to achieve profitability and stability. Such practices will allow businesses to build appropriate customer strategies and also to satisfy the demands of the investors by concentrating on long-term variable corporate governance.

This study will add to the exiting literature on the effect of working capital management and corporate governance on financial performance. Future research should investigate the generalization of findings beyond public sector banks in India. This research has the scope to be further extended to include both public and private banks, and cross-country comparison of public and private banks.

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