
The sixth and final chapter “Summary of Findings, Suggestions and Conclusion” deals with the summary of findings and the various suggestions based on the research of the study.

CHAPTER – II
REVIEW OF LITERATURE

2.1. Introduction
2.2. Review of Literature
2.3. Summary
2.1 Introduction

The review of earlier studies on this topic and related topic is essential to have a clear view on the areas already studied. Based on the reviews of earlier studies, it is possible to know the research gap in the field of the study. In this part of the study, the researcher has presented the various studies done in the field of banking and financial management. It covers various areas in the field of banking sector related to non-performance asset, general financial performance, corporate social responsibilities and the like.

2.2 Review of Literature

Vivek Kumar and Dr. Major Singh in their study, “Profitability of Indian Banks – A Comparative Study of SBI and HDFC” found that there was a large difference between the profitability of the two banks; HDFC’s profitability was more than that of SBI.10

Vikas Choudhary and Suman Tandon in their research “Corporate Social Responsibilities of Public Sector Banks in India”, revealed that banking sector played a predominant role in the economic development of the country. Thus the

banking sector had been playing a significant role as growth facilitator. In recent years corporate social responsibility had become an important issue at global level. The concept of corporate social responsibility recognized as commitment of an organization to operate in a socially responsible manner. It took into consideration the social and environmental implications of corporate financial decisions. It was also associated with corporate governance and ethical business procedure⁹⁹.

Dr. Anurag. B. Singh and Ms. Priyanka Tandon in their research titled “A Study of Financial Performance: A Comparative Analysis of SBI and ICICI Bank”, compared the financial performance of two major banks and found that the banking system of India was featured by a large network of bank branches, serving many kinds of financial services of the people. The State Bank of India, popularly known as SBI is one of the leading banks of public sector in India.¹²

Radhika R. and Jaya Sree in their study “Non-Performing Assets: A Study of Scheduled Commercial Banks in India” observed that NPAs ceased to generate any income for the bank and hence became the major concern of banks in India. NPAs had direct impact on net profit and also on the performance of the

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¹¹ Vikas Choudhary; Suman Tandon, “Corporate Social Responsibilities Of Public Sector Banks In India”, GALAXY International Interdisciplinary Research Journal, Vol.1, November 2013, p.1

banks. The authors further attempted to establish relationship between net profits and total advances. The impact of NPAs on net profit and impact of total advances on NPAs was also examined.\footnote{Radhika R., “Non-performing Assets: A study of scheduled commercial banks in India”, International Journal for Research in Commerce and Management, Vol.No.1, Issue No.1, May, 2011.}

Bhavani Prasad G.V. and Veena D. (2011) in their study “Indian Banking Sector – Trends and Issues” reported that PSBs, which accounted for more than 78 percent of total banking industry assets were saddled with NPAs, falling revenues from traditional sources, lack of modern technology and a massive workforce while the new private sector banks were forging ahead and rewriting the traditional banking business model by way of their sheer innovation and service and adoption of modern technology. The best indicator for the health of the banking industry in a country was its level of Non-Performing assets. NPAs generally give the impression that banks have strengthened their credit appraisal process over the years and NPAs involve the necessity of provisions, which bring down the overall profitability of banks. The Indian banks were facing a serious problem of NPA. The magnitude of NPAs was comparatively higher in public
sectors banks. For better efficiency and profitability of banks the NPAs needed to be reduced and controlled.  

Shalu Rani (2011) in her study “A Study on NPAs with Special Reference to Scheduled Commercial Banks (SCBs) of India” examined the existing position of banks in SCBs of India in respect of NPAs, the causes and remedial measures thereof and concluded that the level of NPA had increased, eroding whatever reduction was made with the ever increasing level of fresh NPAs and tightening of norms by RBI time to time. Total elimination was not possible in banking business so it was wise to follow the proper policy for appraisal, supervision and follow up of advances to avoid NPAs.

Singh Ram Pratap and Chatterjee Biswajit (2009-10) in their study “Bank Ownership and Deposit Mobilization: A Non-Parameteric Approach” sought to compare the performance of 40 Indian commercial banks regarding deposit mobilization in the reform period. The paper made use of a non-parametric approach that is Data Envelopment Analysis (DEA). It used the Window Analysis developed by Klopp. Time span used for the present study was five years that is

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15 Shalu Rani, “A study on NPAs with Special reference to SCBs of India”, RMS journal of management & IT, vol. 5th June, 2011, pp. 60-68.
2001-02 to 2005-06. One important objective of the study was to see whether bank ownership mattered in respect of deposit mobilization. The results suggested that the public sector banks had fallen behind the in-sample private sector commercial banks in terms of deposit mobilization.\textsuperscript{16}

Uwafio Jeremaiah, Idialu and Yomere O Gabriel (2010) in their study “Stochastic Frontier Analysis of the Efficiency of Nigerian Banks” focused on the quantitative analysis of financial performance of Nigerian Banks. The study employed the stochastic cost frontier approach to generate X- efficiencies for each bank over the time period 2000-2004. The specific issue examined in this study was cost efficiency. For the purpose of the study, the banks were classed into two groups, the 10 dominant banks and the rest banks. A variation of the intermediation approach was used with total costs as dependent variable and the independent variables included total customer loans, other earning assets, staff expenses/average number of personnel, interest expenses/total customer deposits, other non-interest expenses/total fixed assets and other fixed assets, total shareholders funds, Non-Performing loans/total loans. The study revealed that there was inefficiency in the Nigerian banking system and that the level of

inefficiency ranged between 0 and 19 percent of total cost. The study proved that there was inefficiency in the Nigerian banking system.\textsuperscript{17}

Kodian Narander, Kumar Shalinder and Kodan Anand Singh in their study “Scheduled Commercial Banks: Growth Trends” analyzed the trends of growth of banking Industry in India. The study highlighted the trends relating to infrastructure development, expansion of total credits and deposits, expansion of rural credit by Scheduled Commercial Banks, investment in government securities, non-performing assets.\textsuperscript{18}

Comparison of Indian banking Industry with that of Chinese banking Industry with respect to Return on Assets, Return on Equity, Non-Performing loan to Total Loan, Capital Adequacies was done. It was concluded that decline in percentage share of rural credit was a matter of concern.

Moffat Boitumelo and Narayana N in their study “The Performance of Financial Institutions in Botswana: A Study of Selected Banking and Non-Banking Financial Institutions” examined the performance of major financial institutions in Botswana using data envelopment analysis. This paper specifically


examined the relative efficiency of financial institutions in a developing country like Botswana through time and using various input-output classification criteria. Time period covered for the study was 2001-2006. In order to make detailed analysis of inefficient units and take corrective actions to improve their performance, this paper considered both the CRS assumption and the VRS assumption in estimating the efficiency indices. The robustness and sensitivity of estimated efficiency scores was examined by using value added, intermediation and operating approaches. The empirical results indicated that the Bank of Baroda and First National Bank and Botswana savings bank were consistently among the most efficient institutions. Botswana Development Corporation, African Bank Corporation and National Development Bank were the least efficient ones. It was held that financial institutions in Botswana should utilise their resources more efficiently to further improve their efficiency so that they could compete with rest of the world.\textsuperscript{19}

Sen Mitali in her empirical work made an exploratory attempt to study the liability structure of Indian Commercial Banks. The sample of 82 Indian Commercial Banks was drawn for which consistent data was available over the period 1995-96 to 2003-04. The major findings of the study was that set of six

critical factors that is profitability, size, liquidity, risk and asset quality, fee based earnings and efficiency influenced the liability structure of commercial banks. From empirical analysis it could be inferred that banks should concentrate more on fee based activities.  

Kumar Sunil and Gulati Rachita in their study “Measuring Efficiency, Effectiveness and Performance of Indian Public Sector Banks” appraised the efficiency, effectiveness and performance of 27 public sector banks operating in India by using a two-stage performance evaluation model. Using the cross-sectional data for the financial year 2006/2007, the technique of data envelopment analysis had been used for computing the efficiency and effectiveness scores for individual PSBs. The empirical results revealed that high efficiency did not stand for high effectiveness in the Indian PSB industry. A positive and strong correlation between effectiveness and performance measures had been noted. Further, on the efficiency front, State Bank of Travancore appears as an ideal benchmark, while State Bank of Bikaner and Jaipur and State Bank of Mysore emerge as ideal benchmark on the effectiveness front.  

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Kumar Sunil and Gulati Rachita in their study “Dynamics of Cost Efficiency in Indian Public Sector Banks: A Post-Deregulation Experience” attempted to analyse the performance of Public Sector Banks in the post-reform period by looking at the trends of cost efficiency and convergence in its level across banks. The time period for the study was from 1992-93 to 2007-08. This paper made use of Data Envelopment Analysis to estimate empirically the cost, technical and allocative efficiency scores for individual public sector banks. Empirical results showed that deregulation had a positive impact on the cost efficiency levels of Indian Public Sector Banks. Cost efficiency in majority of banks that belong to SBI group followed a declining trend and the banks that belong to Nationalised group experienced an increasing trend in cost efficiency levels. It was concluded that the deregulation process had strengthened the cost efficiency of the majority of PSBs. In the light of empirical findings the future reforms in the banking sector should be directed towards strengthening competitive and market oriented policies.\(^{22}\)

Khan MY in his article “A U-turn Banking” discussed the issues related to the government to permit the entry of new private banks in the country. RBI had prepared a draft on the scheme for issuing banking licences to the private sector.

The experts hold the view that the new banks would promote competition in the banking sector. It was held that policy had taken a U-turn from the policy focus on consolidation of banks by merger. The purpose was not to oppose new banks but to prevent return to the pre-1969 era of banking. It was suggested that new banks had to adopt a human approach in the areas like urban slums and rural sector so that the income gap might be reduced and asset generation took place.  

Ram Mohan TT (2010) in article highlighted the fact that despite the worst financial crisis of the century, Indian banking sector fared well. Indian banks showed 1% ROA in both 2007-08 and 2008-09. Capital adequacy and spread also improved. All these indicators placed banking sector among most profitable banks in the world today. ROA of 1 per cent was a benchmark of good performance in banking despite the ups and downs of the economy. This showed that Indian banking was crisis proof. It was suggested that banks needed more sophisticated products and should meet the challenge of financial inclusion.

Ram Mohan TT in his article “At Last, the Remaking of Banks” highlighted the proposition given by President of America Obama that higher capital requirements were not sufficient but the caps on the size of banks were also required. He held the view that bank’s size should be fixed in relation to the

economies in which they operated that 5-10% of GDP. Big or small banks were likely to fail despite steps taken to make banks safe. The damage would be greater if the size of bank was bigger. As a result there would be greater need for a government help. Efficiencies of scale in banking are attained at a relatively low size.\textsuperscript{25}

Pande Bhanu in her study “State Brand of India” indicated that in the worst recession of global banking industry, several big banks of the world collapsed but strong Indian banks improved their brand value rapidly. There were 20 Indian banks in the Brand Finance Global Banking 500. It was annual international ranking by UK-based Brand Finance. The State Bank of India (SBI) became the first Indian bank to break into the world’s Top 50 list. The study used discounted cash flow methodology to arrive at a net present value of trademark and associated intellectual property that the brand value. SBI’s brand value tripled to $4,551 million up from $1,448 million in 2009 helping to grab the 36th position in the list.\textsuperscript{26}

Mahesh and Rajeev in their study “Producing Financial Services: An Efficiency Analysis of Indian Commercial Banks” concluded that public sector banks had been found to be doing better than their private counterparts. Contrary

\textsuperscript{25} Ram Mohan TT, “At last, the remaking of banks”, The Economic Times, 4 February, 2010.
\textsuperscript{26} Pande Bhanu, “State Brand of India” The Economic Times, 1 February, 2010.
to aforementioned studies, there were a few studies on Indian banking industry which concluded that private sector banks were relatively best-performers.\textsuperscript{27}

Siva Reddy Kalluru and Sham Bhat K. in their study “Determinants of Cost Efficiency of Commercial Banks in India” employed the stochastic frontier cost function to examine the cost efficiency of commercial banks in India. The empirical results of the study, in general revealed that cost efficiency of commercial banks in India decreased during the study period. Among the three ownership groups in India, foreign banks seemed to be relatively efficient followed by private domestic banks, due to the former’s technological advantages, urban and non-interested income oriented operations. The study also revealed that big bank, in term of assets, were relatively less efficient. The frontier model results also revealed that cost in efficiency of Indian Banks would increase in the future too. Further, the Tobit regression results showed that earning capacity of banks was the main factor for determining cost efficiency, followed by diversified and strategic non-interest income activities. The study also found that efficiency was negatively related to non-performing loans, assets and paid-up capital to

assets, and positively related to branch network. The empirical results also found an ownership performance relationship in the Indian Banking Industry.\textsuperscript{28}

Hugar and Nancy in their study “Indian Public Sector Bank in the Widening Horizon: A Study Vis-a-Vis their Performance Indicators” used key performance indicators as benchmarks to evaluate the performance of any organization. These were financial and non-financial metrics that gauge the performance of business organizations and they differed depending on the nature and strategy of a business concern. The acronym SMART (Specific, Measurable, Achievable, Result Oriented, Time Based) was generally applied while selecting the performance indicators for evaluation. Such data needed to be consistent and correct and should be timely available. The financial performance of any bank was evaluated by working out a number of ratios depending on the type of data needed at any given time. The ratio made the data comparable ever the various players present in the Industry. This study made use of the five financial parameters i.e., capital to Risk-Weighted Asset Ratio (CRAR), Return on Assets (ROA), Net Interest Margin (NIM), Net Non-Performing Asset (NPA) and Profit Per Employee (PPE). The generally accepted performance of all the Indian Public Sector Banks with regard to profitability indicators was very lean compared to the

foreign banks due to a number of reasons, i.e., the technology, the products, Management Policies, Investment avenues, Management of portfolio, orientation towards profitability and social responsibility and the most important, the mediocre workforce. If these were narrowed down to three most important ones – inferior technology, the workforce and the customer oriented strategies could be fair by isolated. Corporation bank, which stood out among the PEBs was the most technology savvy among them and was the first to migrate fully to care Banking”.  

Selvakumar and Kathiravan in their study “A Study of Profitability Performance of Public Sector Banks in India” urged to generate sufficient revenue to meet the rising cost of funds. Profitability was a key result area where performance and results directly and virtually affected the survival. Therefore, this study analysed the profitability performance of public sector commercial banks in India. From this analysis, one could easily understand that the functions of the PSCBS were efficient and profitability was good. 

Ahmed Arif Almazari, in his study “Banking competition: An Empirical Study on the Jordanian Commercial Bank” presented an empirical analysis of the


impact of banking competition, investigating the competitive factors and obstacles facing this industry and proposing some solutions which can be a source of help to the bankers in Jordan. To achieve the main purpose of this study, some questions were raised: “Does increased competition affect the banks’ interest rates, risks and loans? Does increased competition lead banks to lower costs and increase capital? Does the entry of foreign bank influence the domestic banks? How do the economic environment and concentration influence banking competition?” The methodology followed a descriptive and analytical approach based on a disproportionate stratified random sample of 13 Jordanian Commercial Banks. The finding of this study indicated that increased competition provided incentives for banks to hold more capital as against default, that competition exposed the Jordanian banks to take more risk that foreign competition reduce the quality of domestic loans portfolio but still grant loans after screening but some banks issued loans to less credit worth borrowers due to intense competition, that Jordan banks had a sound network base, that they also had good investment opportunities but they are not fully utilized due to lack of capital, that under all economic circumstances banking competition still existed in that market and that, as reported by the respondents the recent global financial crisis had its impact on the Jordanian Banks’ performance. It was suggested by the researcher that the Jordanian Banks must be more effective to had more power on the market,
strengthening their capital base, avoiding risks by following good measured of screening, expanding and diversifying their business to enable them to meet financial and economic shocks.\textsuperscript{31}

Richa Verma Basaj, in his study “Capital Adequacy Regime in Scheduled Commercial Banks: A Case of India” analysed that the capital adequacy ratios of Indian Banks as worked out on the lines of the CAMEL model. It was found from the analysis that majority of scheduled commercial banks in India were maintaining capital adequacy ratio above 9 percent irrespective of their ownership pattern. While in terms of CAR, Foreign Banks (FBs) had the edge, the Public Sector Banks (PSBs) enjoy the same in terms of ratio of Government securities to the total investment. The Debt/Equity ratio was found the lowest in the case of Private Sector Banks (PBs). Advance to Asset Ratio has increased significantly in the case of the domestic banks during the past five years. On the whole, the banks operating in India had shown appreciable improvement in each of four ratios used to measure capital adequacy according to the CAMEL model. Based on the

results of this study, interestingly, it was obvious that most of the banks in India were capable of absorbing additional requirement of capital under based regime.  

Rachita Gulati and Sunil Kumar, in their study “Efficiency – Profitability Relationship in Indian Domestic Banks: A Disaggregate Analysis” investigated the relationship between the efficiency and profitability at the bank – level in Indian domestic banking industry. The exploration of efficiency – profitability relationship was indispensable because an accurate performance appraisal of an organisation must be craned out from the dimensions of operational efficiency and profitability simultaneously, and ignoring, any one of these might be misleading and might cause errors in decision making process. The main aim of this paper is to examine the efficiency and profitability relationship among individual public and private sector banks operating in India. This study also reports a weak ownership effect on the efficiency of banks, since the efficiency difference between public and private sector banks was not statistically significant as indicated by hypotheses testing exercise using analysis of variance (ANOVA), Wilcoxon Mann-Whitney test, Kruskal – Wallis test and Kologorov – Simrnov test. A change in the orientation of the PSBs from social objective towards an ascent on profitability might be the main cause of observed weak ownership

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effect. The relationship between efficiency and profitability measures revealed that the resources utilization process banks was not functioning well and featuring the presence of considerable wastage of the inputs, these banks fell in the sleeper and question mark quadrants these banks had potential for profitability increase through an improvement in the operating efficiency.\(^\text{33}\)

Prakash Tiwari and Hemraj Varma, in their study “A Fundamental Analysis of Public Sector Banks in India” revealed that the Public Sector Banks (PSBs), which were the foundation of the Indian Banking System accounted for more than 78 percent of the total Banking industry assets. Unfortunately, they were burdened with excessive Non-Performing Assets (NPAs), massive manpower and lack of modern technology. The private sector and foreign banks in India were witnessing immense progress. They were the leaders in internet banking, mobile banking, phone banking, ATM and the like. The fundamental analysis, which aimed at developing an insight into the economic performance of the business, was of paramount importance from the viewpoint of investment decision. The study had been conducted to examine the economic sustainability of the five major banks in the Indian banking sector, the SBI, the PNB, the BOI, the BOB and the CB. The study revealed that SBI had performed better in terms of

Earning per share and price earning ratio than the PNB, the BOI, the BOB and the CB.\textsuperscript{34}

Joshipura, in his study “Measuring Performance of banks” covered importance of bank earnings. Bank earnings provided for internal capital formation, and they were needed to attract new investor capital, which is essential if the institution was to grow. Healthy profits were needed to absorb loan losses and to built adequate provisions. A consistent earnings performance builds public confidence in the bank. Many bankers believe that public confidence in their institutions was their most valuable banking assets. Consistently healthy earnings were essential to the sustainability and viability of banking institutions. A strong bank may prudently maintain a tighter liquidity position than a weaker bank. A strong bank may even be able to ensure that all deposit claims are routinely met while it is technically illiquid, and by doing so maximise its income from maturity transformation using a static liquidity measure to judge the comparative strength of peer banks can be misleading. A bank’s capital forms the safety net or cushion that allow sit to remain solvent and to continue operating despite unexpected macroeconomic or institutional difficulties. A major portion of the analysis of a banking institution involved evaluating, the quality of assets and the adequacy of

reserves, since any over valuation of assets or inadequacy in loan loss reserves would overstate capital measures of profitability, efficiency, stuff productivity, spread, non-interest income and cost of intermediation. The gross and the net NPA level would be a perfect barometer for the quality of assets; one had to watch the level of restructured assets, which would put a stress on its quality.\textsuperscript{35}

Dangwal, et.al., in their article “Performance Appraisal of Public Sector Banks” analysed through three sets of ratios, such as Spread ratios, Burden ratios and Profitability ratios. Indian Banking system had historically evolved under the impetus of economic, social institutional forces uniform to various banks. The overall operational efficiency of the banking system depended on the relative efficiency of each unit of the banking system. The spread and profitability ratios increased in the PSBs in India during the period of study, which indicated that the performance of the public sector banks had excelled in the post-reform period.\textsuperscript{36}

Ved Pal and Parveen Chauhan, in their study titled “Performance Appraisal of Commercial Banks through Camel Framework” covered the performance of the commercial banks through all the components of the CAMEL framework.


Foreign banks showed their dominant position in the performance based on the CAMEL framework, followed by the new private sector banks. The public sector banks, which recorded relatively moderate performance, needed to enhance the managerial efficiency. It demanded management autonomy to these banks. The government being the major shareholder of these banks wielded tremendous influence on the bank management. The old private banks were found to have relatively poor performance. A majority of these banks were smaller in size. The new financial environment was characterised by intense competition, new technology deregulation, and globalisation. In order to survive and thrive in business, these banks required drastic steps in restructuring their existing system, and introduced the managerial practices similar to those adopted in new private banks and some leading foreign banks. The recent global financial crisis and the south-east Asian financial crisis during the late 1990s highlighted the importance of financial soundness and stability of the financial sector. It called for an effective risk-management system measuring the performance of banks in term of the CAMEL, which formed part of the Basel Accord, could provide useful information for risk measurement and can enhance management capability of the banks.  

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Sangeeta Arora and Shubapreet Kaur, in their study “Financial Performance of Indian Banking Sector in Post Reforms Era” reviewed the performance of banking sector in India in post reforms period. A comparative appraisal of banks was undertaken on the basis of seven key indicators of financial performance for the period from April, 1994 to March, 2005. It was found that though Public Sector Banks had improved considerably and their performance is comparable with banks in other sector yet they were lagging behind in thrust area such as business per employee, profitability and asset quality etc. Recommendations and suggestions had been given for improving the performance of public sector banks in India.38

Khansnobis S. in his study “NPAs Emerging Challenges’, Indian Bankers” opined that the present definition of NPAs was restrictive and ignored a large number of NPAs presently sitting on the books of banks and financial institutions. Author felt that handling of impaired financial asset needed multi-disciplinary skills-sets covering technology, business model validation, investment banking etc., rendering them into a knowledge and execution hub of different genre. This type of knowledge was a rarity in Indian Banks and stated that the seed of success of managing NPAs lay in the speed of recycling of these assets and their

realization into cash. In achieving this objective, it was important to have a conducive legal environment, adequate empowered system and structure, support from the government and finally accessibility to new domestic and foreign capital. 39

Dr. Janardhar G. Naik in his study “NPAs Management Challenges before Banking Sector” pointed out on the problem of NPAs management in banking sector and concluded that Government of India had to set Asset Reconstruction Companies (ARCs) to manage NPAs to face the challenges before the banking sector. 40

Murali and Krishna in their study “Ensuring Qualitative Credit Growth through Effective Monitoring of Advances” observed that there had been a spirit in the lending activity of banks, in the recent past. This was due to two factors, viz. availability of huge surplus funds with the banks and the losses suffered by the banks in investment and treasury activities. While credit growth was needed for survival, it was imperative to ensure that the credit growth did not result in nonperforming advances later. For this, banks had to resort to effective pre-disbursement as well as post-disbursement monitoring. The authors concluded that

negligence in monitoring a loan was less excusable than an error at the appraisal stage.\textsuperscript{41}

Krishna V and Surya Chandra Rao, in their study “Management of Non-Performing Assets in Scheduled Commercial Banks” pointed out that NPAs of Indian commercial banks were above the international standards. Researchers made an attempt to examine the problems of NPAs and evaluate its intensity on different bank groups. There was a review of strategies adopted by banks to manage NPAs.\textsuperscript{42}

Mohan N.J. Monteiro and Ananthan B.R., in their study “NPAs in Public Sector Banks: Causes and Cures, An Analysis of Managers’ Perception” observed that the lending activity of banks carried credit risk, from the failure of the borrowers to fulfill its contractual obligation by not paying interest or installments in time. Non-recovery of installments and also interest on the loan portfolio negated the effectiveness of this process of the credit cycle. Non-performing Assets, which represented bad and doubtful debts were endemic in any Bank. According to them, willful default and poor monitoring were the major causes for

\textsuperscript{41} Murali and Krishna, “Ensuring Qualitative Credit Growth through Effective Monitoring of advances”, 2006.

an account becoming NPA at the first level and diversion of funds at the next level were the causes for NPA. Good pre-sanction scrutiny and effective post-sanction supervision and effective recovery steps were in measures to control NPAs.\(^{43}\)

Irfan Ahmad, in his study “Banking Sector Reforms in India Since Liberalization” analysed the performance of the commercial banks over the period 1998-99 to 2005-06 in terms of NPAs, priority sector advances, capital adequacy ratio, SLR and CRR and provided some valuable suggestions for further reforms in the banking sector so as to enhance their performance in the years to come and opined that the RBI should appoint another committee to evaluate the ongoing banking sector reforms in order to improve the performance of the banks specially PSBs to meet the challenges of the growing financial integration and global competitive environment.\(^{44}\)

Bhatia in his study “Non-Performing Assets of Indian Public, Private and Foreign Sector Banks: An Empirical Assessment” explored an empirical approach to the analysis of Non-Performing Assets (NPAs) of public, private, and foreign sector banks in India. The level of NPAs was one of the drivers of financial


\(^{44}\) Dr. Irfan Ahmad, “Banking Sector Reforms in India since Liberalization”, Monthly public opinion surveys, 2007, pp.8-17.
stability and growth of the banking sector. This study was aimed at finding the fundamental factors which impacted on NPAs of banks. A model consisting of two types of factors, viz., macro economic factors and bank-specific parameters, was developed and the behavior of NPAs of the three categories of banks was observed. This study explored an empirical approach to the analysis of Non-Performing Assets (NPAs) of public, private and foreign sector banks in India. The NPAs were considered as an important parameter to judge the performance and financial health of banks. The level of NPAs was one of the drivers of financial stability and growth of the banking sector.\textsuperscript{45}

Rajendran P. and Karthikeyan K., in their study “Impact of NPAs on Micro Banking Variables” stated that high level of Non-performing assets would also affect the productivity of the banks by increasing the cost of funds and by reducing the efficiency of the bank employees. Since, the employees were involved with the task of recovery of non-performing assets, productivity of employees was affected. They made an attempt to study the impact of non-performing assets on the productivity of SCBs and observed that the Non-

performing assets continued to influence the profitability and productivity of the scheduled commercial banks in India to a greater extent.  

Ritu Goyal and Rajindar Kaur, in their study “Performance of New Private Sector Banks in India” studied the New Private Sector Banks and analysed their performance by using various Balance Sheet and Profit and Loss Account ratios. They observed that there was a significant difference amongst the mean ratios of the banks in 12 out of 16 selected parameters.

Sangeeta Arora and Shubapreet Kaur in their study “Diversification in Banking Sector in India Determinants of Financial Performance” analysed the financial performance of diversified banks over a period of 2000-05 considering various internal and external factors like economies of scale and scope, competition, risk reduction etc. which were forcing banks to diversify and found a continuous decline in interest margins after 2001 which indicated that a low level of interest margin pushed the banks to generate income from alternative sources of revenues other than interest income. Banks would have to concentrate more on

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providing better, faster and more efficient customer service to permit banks to charge higher rates for better and faster service.\textsuperscript{48}

Karunakar in his study “Are Non - Performing Assets Gloomy or Greedy from Indian Perspective?” stated that the problem of losses and lower profitability of NPAs and liability mismatch in banks and financial sector depended on how various risks were managed in their business. The lasting solution to the problem of NPAs could be achieved only with proper credit assessment and risk management mechanism. It was better to avoid NPAs at the market stage of credit consolidation by putting in place of rigorous and appropriate credit appraisal mechanisms.\textsuperscript{49}

Manish and Aruna, in their study on “Profitability and Productivity in Indian Banks: A Comparative Study” showed that banking sector had undergone major transformation. The underlying objectives of the reforms were to make the banking system more competitive, productive and profitable. As per the IBA report “Banking Industry Vision 2010” there would be greater presence of international players in the Indian Financial System and some of the Indian Banks


\textsuperscript{49} Karunakar, M., Vasuki, K. and Saravanan S. “Are non - Performing Assets Gloomy or Greedy from Indian Perspective?”, Research Journal of Social Sciences, 3, 2008, pp.4-12.
worked become international players in the coming years. The key to success in the competitive environment was increased productivity and profitability. Indian banks especially the public sector banks and the old private sector banks were lagging far behind their competitors in terms of both productivity and profitability and profitability with the exception of the state bank of India and its associates. The other public sector banks and old private sector banks needed to go for the major transformation programme for increase in their productivity and profitability.\(^{50}\)

Sarma and Nikaido in their study “Profitability and Productivity in Indian Banks: A Comparative Study” presented an analytical review of the capital adequacy regime and the present state of capital to risk-weighted asset ratio (CRAR) of the banking sector in India. The authors found in their study that in the current regime of Basel I, Indian banking system was performing reasonably well, with an average CRAR of about 12 per cent, which was higher than the internationally accepted level of 8 per cent as well as India's own minimum regulatory requirement of 9 per cent.\(^{51}\)


Bodia and Verma in their study “Evaluating Performance of Banks through CAMEL Model: A Case Study of SBI and ICICI” made an attempt to study the performance of the SBI and the ICICI through the CAMEL Model for the period from 2000-01 to 2004-05. Compound Annual Growth Rate (CAGR) was used to calculate the growth of each ratio. The author concluded that SBI had an edge over its counterpart ICICI in terms of Capital Adequacy. However, the vice-versa was true regarding assets quality, earning quality and management quality. The liquidity position of both the banks was sound and did not differ significantly.\textsuperscript{52}

Khalid in his study “The Effect of Privatisation and Liberalisation on Banking Sector Performance in Pakistan” investigated the effects of privatisation and liberalisation on the performance of the banking sector in Pakistan in the light of the CAMEL framework and found that there was little evidence of improvement in most of the indicators of financial health as a result of the privatisation and liberalisation policies pursued so far in the banking sector of the country.\textsuperscript{53}


Baral in his study “Health Check-up of Commercial Banks in the Framework of CAMEL: A Case Study of Joint Venture Banks in Nepal” sought to investigate the financial health of joint-venture banks in the CAMEL framework. He found that the health of joint-venture banks was better than that of the other commercial banks. He also analysed the financial position of Indian banks and assessed the relationship between the CAMEL ratings and the bank's stock performance. They found that the Off-site Supervisory Examination Model, CAMEL, was related to the banks' stock performance in the capital market. Moreover, the private supervisory information gathered by banks' examiners in the form of the CAMEL ratings did filter into the financial markets, in spite of the fact that they were confidential and not disclosed to the public.54

Chatterjee and Sinha in his study “Cost efficiency and Commercial Bank Lending: Some Empirical Results” observed that the private sector banks exhibited higher mean cost efficiency than the public sector banks. Further, the public sector banks lagged behind the private sector banks both in terms of technical and allocative efficiency.55

Das and Ghosh in their study “Financial Deregulation and efficiency: an Empirical Analysis of Indian Banks During Post-Reforms Period” found that the medium-sized public sector banks performed reasonably well and were more likely to operate at higher levels of technical efficiency. Further, banks with public ownership were more efficient than their private counterparts including foreign banks.\(^{56}\)

Chakrabarti and Chawla in their study “Banking Efficiency in India Since the Reforms: An Assessment” found that the PSBs had, in comparison, lagged behind their private counterparts in terms of performance in both value and quantity basis.\(^{57}\)

Karn in his study “Banking Sector Reforms in India” identified that the gross NPA, as a proportion of gross advances, had been declining steadily and distinctly over the years. Since the RBI introduced the objective criteria for identification of the NPAs and since the assets of the Public Sector Banks


constituted nearly three fourths of the total assets of the banking system, this declining trend of the NPAs, manifested an overall positive impact of reform measured.  

Shanmuga Sundaram and Palaniswamy in their study “Financial Performance Appraisal of Banks” stated that the reduction of non-performing assets was one of the steps in increasing the return on net worth of commercial banks. They also mentioned that there was a growing awareness to bring down the NPAs as they had an adverse impact on their profitability due to recognition of interest as well as requirement of heavy loan loss provision on such assets.

Bousaid and Saucier in their study “Liquidity, Solvency, and Efficiency? An Empirical Analysis of the Japanese Banks' Distress” used the CAMEL rating on Japanese banks for the period 1993-1999 and found that the CAMEL framework had the capacity to predict and explain the distress. The study revealed that the major problem of failed banks was not of the inefficiency of the

management, but the below-standard capital adequacy and considerable problems in their assets quality.60

Ruchi Trehan and Niti Soni in their study “Efficiency and Profitability in Indian Public Sector Banks” used the data envelopment analysis technique to generate the technical efficiency scores of Individual Public Sector Banks. The banks affiliated to State Bank of India group were more efficient than Nationalized Banks. The relationship between profitability and efficiency revealed that profitability significantly influenced the operating efficiency in the Indian Public Sector Banking Industry.61

Mukherjee et al. in their study “Performance Benchmarking and Strategic Homogeneity of Indian banks” noticed that the PSBs were more efficient than both private and foreign banks. Also, the performance of the PSBs improved during the period 1996-1999. 62

Reddy in his study “NPAs Are a Major Cause of Concern” observed that the magnitude of the problem of the NPA was severe, affecting the depositors,

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borrowers, shareholders, the economy and the public particularly tax payers. Accumulated NPAs, fluctuations and narrow activity in the market were some of the major issues which derailed the major economic activities.  

Souza, in his article "How Well Have Public Sector Banks Done? A Note" evaluated the performance of public sector, private sector and foreign banks during the period from 1991 to 2000. The efficiency of the banking system was measured in terms of spread/working funds ratio and turnover/employees ratio. The analysis revealed that the profitability of the public sector banks in late nineties improved relatively to that of private and foreign banks.

2.3. Summary

In this chapter, the researcher has presented various literature connected with banking in general and financial management in particular. It covers various studies related to financial performances of both Indian and foreign banks. Though there are many studies already been undertaken in the field of financial management of banking companies there is no any specific study related to the Financial Performance of State Bank of India and its Associate Banks in India.

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