CHAPTER 2
LITERATURE REVIEW

2.1 Introduction:
Banks are the leading financial institutions in the economic system of the country. Co-operative banks offer to the public both deposit and credit services and various innovative services.

The review of literature guides the researcher for getting better understanding of methodology used, limitations of various available estimation procedures and database, clear interpretation and settlement of contradictory results. The review of empirical studies explores the avenues for further and present research efforts related to subject matter. A number of research studies have been carried out on different aspects of corporate governance by the researchers, economists, and academicians in India and abroad. Different authors have analyzed the effects of corporate governance from different viewpoint. A review of this analysis is important in order to develop an approach that can be used in the context of the study of corporate governance practices in urban co-operative banks in Pune. Therefore, the present chapter reviews the empirical studies related with different aspects of corporate governance, urban co-operative banks, and financial performances.

2.2 Review of Literature
Shilfer and Vishny (1997) define corporate governance as the methods by which suppliers of finance control managers in order to ensure that they earn a return on their investment. Corporate governance operates in a different context in banking sector compared to other economic sectors. Gopal (1998) argued that the increasing efficiency of capital markets and global mobility of funds across the world means that the opportunity cost of shareholders funds is

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increasing. If Indian corporate entities do not perform better then the investors, especially Foreign Institutional Investors (FIIs), will look elsewhere.\textsuperscript{14}

Ciancanelli and Gonzales (2000), in their research paper state that in banking sector the regulation and regulator represent external corporate governance mechanism. In the conventional literature on corporate governance, the market is the only external governance force with the power to discipline the agent. The existence of regulation means there is an additional external force with the power to discipline the agent. The force is quite different from the market. This implies that the power of regulation has different effects than those produced by markets.\textsuperscript{15}

Aravanam (2001) suggested that Corporate Governance is basically a system of making directors accountable to the stakeholders for the effective management of the companies, with concerns for ethics and values. This is related to the management of companies by the Board of Directors, which reflects on complete transparency, integrity and accountability of the management comprising both executive and non-executive directors.\textsuperscript{16}

Macey and O’Hara (2001) argue that a broader view of corporate governance should be adopted in the case of banking institutions. They also argue that because of the peculiar form of banking, corporate governance mechanisms for banks should include directors as well as shareholders.\textsuperscript{17}

Inaugural Address delivered by VepaKamesam (2002), that the real success of financial sector reforms will depend primarily on the organizational effectiveness of the banks, including co-operative banks, for which initiatives

will have to come from the banks themselves. Vepa Kamesam suggests that the co-operative banks should build on the synergy inherent in the co-operative structure and stand up for their unique qualities. With elements of good corporate governance, sound investment policy, appropriate internal control systems, better credit risk management, focus on newly-emerging business areas like micro finance, commitment to better customer service, adequate mechanization and proactive policies on house-keeping issues, co-operative banks will definitely be able to grapple with these challenges and convert them into opportunities.  

La Porta. (2002) studied firms performance from 27 developed countries. They find evidence that there is higher valuation of firms in countries with better protection of minority shareholders. Black, Jang & Kim (2003) investigate the relationship between corporate performance and good corporate governance in Korea. They find positive relationship between corporate performance and corporate governance.

Nam (2004) suggests some aspects that should be concerned in the internal mechanism of corporate governance, including its independence and structure, function and activity, compensation and other relevant responsibilities of board of directors. Rao A.R (2004) has conducted an empirical research study on customer service and strengths of urban cooperative banks. He observed that the Majority of customers reported that they are availing of loan facilities from their respective urban cooperative banks under study. Another 54 percent customer expressed that they are availing of fixed deposit facilities, where as 28 percent availed of demand draft facilities, recurring deposit facilities (22.6 percent), overdraft facilities (12.67 percent), bills of exchange facilities (10 percent), payment of LIC premium facilities (4 percent), payment of electricity

18Shri.Vepa Kamesam, 2002, Deputy Governor, Reserve Bank of India at the National Convention of “Urban Co-operative Banks”, organized by Academy of Corporate Governance, Hyderabad supported by Administrative Staff College of India, Hyderabad, at Mumbai on July 5, 2002.
bills facilities (10.34 percent), and payment of income tax facilities (0.66 percent) were the services availed of by the customers. The success of urban cooperative banks depends on the loyalty of the members based on commercial benefits accruing to them and harmonious relationship between the members and the elected leaders. He also concluded that the major challenge for urban cooperative banks today is their capacity to integrate themselves with their national and global counterparts without sacrificing their own cultural ethos. He also concluded that given sincerity of approach, sound management and good customer service, there is a tremendous scope for urban cooperative banks to grow in the liberalized economy, notwithstanding the competition that is emerging in the changed economic scenario.\textsuperscript{22}

S Bhaskaran (2005) studied the Changing Faces of Indian Banking. This article mainly speaks about the changes that have taken place in Indian banking sector since the reforms started. Major innovations are implementation of Basel I, interest rates deregulation, innovation in lending practices of banks to corporate sector, retail sector and deposit schemes. The study ended with the concluding remarks that the banks are unable to adopt innovative strategies due to constraints of banking regulation act.\textsuperscript{23} Fernando A.C.( 2006) states in his book “Corporate Governance, principles, policies and practices”, Banks and Corporate Governance must have following minimum criteria: The basic objective of governance should be safeguarding depositors money and optimizing shareholders interests. The directors should be competent and persons of integrity. The chairman of the board should preferably be unconnected with the management of the bank. Suitable risk and reward system should in place for the directors of the bank Three major imperatives that emerge include; enable the banks to grow in size, expand the realm of activities these could undertake and sustain the current policy of growth, profitability and productivity.\textsuperscript{24}

\textsuperscript{24}Fernando A.C. 2006, “Corporate Governance, principles, policies and practices”, Dorling Kindersley, Delhi, 2006.
Tarak Shah,(2006), tried to unearth the fact with regard to success mantras of Raj bank, he found the following four pillars of success of Raj bank.

Excellent Corporate Governance, Exceptional Services and, innovation in Products and Processes, Zero exposure to stock market and risky securities.

This case study states that Corporate governance in its wider connotation basically covers a range of issues such as protection of shareholders’ rights, enhancing shareholders’ value, Board issues including its composition and role, disclosure requirements, integrity of accounting practices, the control systems, in particular internal control systems. Corporate governance especially in the co-operative sector has come into sharp focus because more and more co-operative banks in India, both in urban and rural areas, have experienced grave problems in recent times which has in a way threatened the profile and identity of the entire co-operative system. These problems include mismanagement, financial impropriety, poor investment decisions and the growing distance between members and their co-operative society. Such practices lead to maximum defaults and growing Non Performing Assets (NPAs). However, RAJBANK has remained an exception to all such problems.25

Sharma Geeta & Kawadia Ganesh (2006) in their research paper “Efficiency of Urban Cooperative Banks of Maharashtra: A DEA Analysis”, discussed the cooperative banking sector in India has received a series of shocks in recent years, resulting in a significant number of bank failures and upsurge in bank merger activities, both voluntary and arranged by RBI. The paper analyzes and measures the performance and efficiency of the Urban Cooperative Banks (UCBs) of Maharashtra, using Data Envelopment Analysis (DEA), a model that helps to determine the relative efficiency among competing banks, on the basis of their numerical efficiency score. The author also attempts to identify and examine the relationship between size and efficiency of UCBs. However, the scope of efficiency is limited to technical efficiency only.26

25Shah Tarak, 2006, “Attaining zero Non-Performing Asset (NPA) by Transparency, g Trust and & Service”, Indian Institute of Planning and Management (IIPM) Ahmedabad, © IIPM.
Shaw,(2006), in her paper utilizes the broader definition of corporate governance as one that is more relevant to the distinctive governance features of co-operatives in developing countries face a set of challenges in improving corporate governance standards which are unknown to many OECD countries. The study argues that the informal systems of governance are more effective in small and locally rooted credit unions in comparison with larger co-operative banks and financial mutual's. 

Bodla B S & Verma Richa (Aug 2006), in their paper studied the performance of SBI and ICICI through CAMEL Model for the period 2000-01 to 2004-05. The authors found that SBI has an edge over its counterpart ICICI in terms of Capital Adequacy. However, the vice versa is true regarding assets quality, earning quality and management quality. The liquidity position of both the banks is sound and does not differ significantly.

Pati, Ambika Prasad, Feb 2006, in his working paper, mentioned that banks being the most influential institutions in the financial sector their governance is of crucial importance. The post implementation situation of corporate governance policies in Indian banking, which was undertaken after the recommendations of Advisory Group (2001) and others, has brought mixed outcomes. Along with qualitative changes in disclosure practices most of the banks have shown handsome profit and low NPAs. Statistically significant correlations of governance with important financial variables on expected lines have been found for banking in India. Strong impact of governance has also been observed for all the variables in public sector banks and in all scheduled commercial banks. A greater degree of disintermediation in the financial sector has put pressure on the bank deposit mobilization and on the other side the opening of economy has brought more global integration with an adverse impact on loan disbursement. The growth of other channels of savings, growth of capital market and the possibility of full capital account convertibility in future will put bank governance for a litmus test. More

dispersed ownership, withdrawal of safety nets, reduction of preemptive norms, more exposure to market discipline and spirited implementation of various measures are required for ensuring better governance in Indian banking.\textsuperscript{29}

\textbf{Raghavan, Kamala} (Aug 2007) in his research paper discussed the current environment of corporate scandals and public distrust, the investor community will use the integrated compliance framework to differentiate between adopters and non adopters of good corporate management practices. The paper highlights the regulatory overlaps and inherent leveraging opportunities in the compliance practices, and points out the competitive advantage to progressive banking institutions. The paper explores how the compliance requirements are changing the emphasis of corporate governance and finance functions in banking institutions. Author concluded that various committees, face major challenges in integrating enhanced enterprise-wide risk management, higher levels of IT security, and efficient allocation of resources to meet the enhanced compliance requirements.\textsuperscript{30}

Eduardus Tandellin, Hermeindito Kaaro, Putu Anom Mahadwartha, Supriyatna, (2007) in this working paper No. 34 provides a conceptual model called Triangle Gap Model (TGM) and then test it in an empirical study. The idea of this research is to investigate the relationships among corporate governance, risk management, and bank performance in Indonesian banking sector. This working paper observes that the type of ownership has moderating effect on these relationships, and the ownership structure is a key determinant of corporate governance. This research study utilizes both primary data and secondary data analyses. Method of analysis used for secondary data is Generalized Methods of Moments (GMM). Meanwhile, primary data utilizes bootstrap method, factor analysis, and 3-state least squares (3SLS). Researchers find that the relationships among corporate governance and risk


management and between corporate governance and bank performance are sensitive to the type of bank ownership. This study finds an interrelationship among risk management and bank performance. Risk management has important effect on bank performance. 

Arora Sangeeta and Kaur Shubpreet (2007) tried to find out why Indian banks are diversifying their sources of income. The study was conducted to assess the effects of diversification on financial performance and profitability. The authors have used aggregate data from 2000 to 2006. They have examined the economic factors responsible for diversification by implementing various ratios. The authors concluded that in a very near future, banks have to face the threat of new entrants and substitute products as well as the rivalry amongst the existing banks. Dr. H. N. Kuden (Jan 2008), in his book on “Pune Zilla Nagari Sahakari Banks Vikas (year 1906 to 2006)”, has explained the development of urban co-operative banks in Pune from the year 1906 to 2006. This book gives the idea about the development of urban co-operative banks in Pune for 100 years. Author observed the development of urban co-operative banks in Pune and explains the rules and regulations of co-operative societies. Author states risk management and debt recovery position and financial position and audit classification of urban co-operative banks in Pune. In his book he also explains the rehabilitation of weak banks, importance of leadership development and tainting to the members of the banks.

Gopinath, Shyamala (Jul 2008) “Corporate Governance in the Indian banking industry”, this paper makes a case for corporate governance as an internal mechanism in banks, and therefore influenced by cultural issues, to dovetail with the overriding compulsions of prudential regulation, that sets the boundaries for systemic stability. In the Indian context, the Reserve Bank of

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India (RBI) has put in place detailed regulations related to the composition of bank boards, the 'fit and proper' criteria for appointment of directors, transparency and disclosure norms for derivative products, related-party transactions, risk-based internal audit and other crucial components of banks corporate governance architecture. In order to monitor the intra-group transactions and exposures, information from the designated entities of each FC is obtained by the principal regulators and a system for exchange of information among the regulators has been put in place. In the final analysis, corporate governance is a continuous process of evolving best practices in response to market developments. This is the constant thrust of RBI's initiatives in ensuring a vibrant corporate governance framework.³⁴

Sapovadia Vrajjal K (2008) has made a study on “Good Cooperative Governance as a Tool to withstand Urban Coop Bank Crisis - A Case Study of Rajkot Nagarik Coop Bank, India”. The research paper investigates reasons of growth under adverse conditions and test whether RNSB has maintained cooperative principles and value at the center or not. The objectives of the study were to investigate reasons of growth for RNSB, to scrutinize governance of RNSB in light of Cooperative Principles & Values and to study whether Good Cooperative Governance is Good Business Practice or not. Secondary data was used in the form of policy documents, annual reports, compilation of financial data of UCBs and available research papers.³⁵

C. Selvam (2008) prepared SWOT analyses of Urban Co-operative Banks. Author states that UCBs have to perform their own SWOT analysis that will enable them to become efficient, effective, competitive and above all viable and profitable business enterprises. Author tried to conceptualize future strategies for guiding in an era of self-reliant, self-sustained and economically viable urban cooperative credit structure. Survival of the fittest in urban

banking sector will assume greater significance in years to come. An attempt has been made by an in-depth Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis for UCB sector to cope with the challenges thrown up by reforms in the banking sector.  

B. Nimalathasan (2008) in “Comparative Study of Financial Performance of Banking Sector in Bangladesh” using CAMELS rating system with 6562 Branches of 48 Banks in Bangladesh from Financial year 1999-2006. CAMELS rating system basically quantitative technique, is widely used for measuring performance of banks in Bangladesh. He discussed that the Banking sector in Bangladesh is different from the banking as seen in other developed countries. This is one of the Major Service sectors in Bangladesh economy, which is divided into four categories of scheduled Banks. These are Nationalized Commercial Banks (NCBs), Government Owned Development Financial Institutions (DFIs), Private Commercial Banks (PCBs), and Foreign Commercial Banks (FCBs). Performance of financial Institution is generally measured by applying quantitative techniques of financial measurement. It is a postmortem examination technique of achievement of a bank. Many Studies are conducted in different countries to judge the performance of their banking system using different statistical methods such as Data Envelopment Analysis (DEA) and the Stochastic Frontier Approach (SFA).  

Samantaray D.P. and Panda Swagatika (2008) review the role of Corporate Governance. The most accepted corporate mantra today is that the better Corporate Governance practices of an organization the better the shareholder and stakeholder value creation. The banks under study were The State Bank of India and HDFC Bank ltd., the former is a leading public sector bank whereas the latter one is a leading private bank. The study is based on the report of  

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Corporate Governance given by Narayana Murthy Committee on corporate governance.\textsuperscript{38}

T.N.Pandey, Advocate, Noida,(2008), his article states that the corporate governance norms stipulated by SEBI in clause 49 of the Listing Agreement have been subjected to repeated changes by SEBI resulting in confusion and uncertainty. The article shows that SEBI is too anxious to make changes concerning regulation of Corporate Governance on the slightest pretext, this apparently, cannot be conductive to the objectives sought to be achieved and some certainty in rules is necessary. This article suggests that the professional companies should shift their focus from mere compliance approach to study and investigate the behavior of directors, corporate governance practices, and financial reporting systems. This article ensures that in long – term two important qualities of corporate governance and reporting are transparency and honesty.\textsuperscript{39}

U.K. Chaudhary, (Dec.2008), in his article states that the proposals relating to independent directors should go a long way in ensuring increased investor confidence in respect of protection of rights of minority shareholders coupled with the principles of good governance. This article makes a clear distinction between corporate performance and corporate governance. This article clearly defines and lays out as to who can be legitimately and credibly classified as an independent director.\textsuperscript{40} Shilpi Thapar (2009), article states that the efficiency of corporate governance in a particular organization depends upon a combination of drivers which may substitute or complement each other. The article says that markets for corporate control are thought to perform important

\textsuperscript{38}Samantaray D.P. and Panda Swagatika, 2008 “Corporate Governance in Indian Banking Industry: An Experience with SBI and HDFC Bank” ICFAI Journal of Corporate Governance, June 2008 pp.63-73.


governance functions in promoting a greater shareholder orientation among corporate managements.\textsuperscript{41}

Shailaja V. Kheni, (2009), defined corporate governance as "a set of system, processes and principals which ensures that a company is governed in the best interest of all the stakeholders". This paper also states that corporate governance is a system by which companies are directed and controlled and it is about promoting corporate fairness, transparency and accountability. This paper explained key pillars of corporate governance and stated that good corporate governance is simply good business. The author suggested to apply corporate governance practices in a right manner for better growth of a company and explained the role & responsibilities of stakeholders.\textsuperscript{42}

Basak Amit (2009) in his research paper studied the performance appraisal of urban cooperative banks. Author makes an attempt to examine the working and financial performance of the UCBs with the case study i.e. Contai Cooperative Bank Ltd., one of the leading UCBs in West Bengal. This research paper identified and analyzed the trend, progress and problems of this bank to throw light on the problems of NPAs and gave suggestions for improving the efficiency and effectiveness of this bank. The study is based on secondary data, the relevant data have been collected for the period from 1995-96 to 2006-07. This data have been analyzed with the help of statistical tools like ratios, percentages, averages and trend analysis, chi-square test, and multiple regression analysis.\textsuperscript{43} Adv. M.M. Deshmukh (2009), explains the role of corporate governance in co-operative banks, and the role of BODs, audit committees etc. Mr. Deshmukh states how to implement code of conduct of corporate governance in co-operative banks.\textsuperscript{44}


\textsuperscript{44}Deshmukh M.M., 2009, “Corporate Governance in Co-operative Bank”, Pune District Urban Cooperative Banks Association Ltd., Pune, March 2009, pp 120-125
Kirti Ranjan Swain (2009) reviews the existing codes of Corporate Governance (Corporate Governance) in India. It analyzes the Corporate Governance structures and practices in HDFC bank by using a case study methodology. It uses both primary and secondary data for analyzing the adaptability of Corporate Governance codes in the Indian context. The primary data regarding the extent of Corporate Governance practices and reporting in HDFC bank were collected from various towns of Orissa and the secondary data were collected through various published and unpublished reports and websites. The paper reveals that India has a good Corporate Governance mechanism and disclosure practices on par with world counterparts.45

Rajeev Puri, Ruchi Terhan, Hashima Kakkar, (Jan-2010), the paper study aims at examining the effectiveness of audit committees as a tool of corporate governance in the Indian corporate sector. Through case survey approach, this study reveals that the concept of audit committee is not new in India and is gaining importance day by day. The functions of audit committee have gradually shifted from traditional areas of accounting. In the current scenario, the audit committees set up by Indian corporate houses perform diverse functions in the areas of financial reporting, financial analysis, audit planning, reviewing of external audit, internal control and evaluation, etc. The study also reveals that in all the companies under study there is independent representation of the audit committees which act as a channel of communication between external auditors and board of directors. Authors argued that the dynamic nature of the role of the audit committees makes corporate governance more effectual in the context of the Indian corporate.46

Indian Banks, 5th May2010, Urban Co-operative banks with strong corporate governance get approval to open ATMs, this article states that if urban co-operative banks is eligible as per the new norms, they do not have to seek prior approval from RBI to set up offsite ATMs. In these new guidelines, regarding

the approval, RBI has also stated that regulator will have full say on issues like track record of compliance with the provisions of Banking Regulation Act, 1949, RBI Act,1934, and the instructions or directions issued by RBI from time to time.47

J.P.Singh, Naveen Kumar, Shigufta Uzma,(2010), make an efforts to look at events that precipitated the Satyam fiasco and the loopholes in the system that enabled the fraud to occur. This paper also proposes to provide insights into the legislature in formulating provisions for curbing such corporate mishaps that obliterate investors confidence, particularly so when our country is desperate to draw on foreign capital to propel its economic growth. According to this article, corporate governance is beyond the realm of law; it stems from the culture and mindset and cannot be regulated by legislation alone.48

Badhe Durgesh Ashok (2010) in his article “Role of Urban Co-operative Banks in Sustainable Development of India” states that the sustainable development can be conceptually broken into three constituent parts: environmental sustainability, economic sustainability and socio-political sustainability. The author discussed the history of co-operative movement. The objective of this research paper is to discuss the functions of UCBs and its contribution in economic development of India. Author gives the information about financial performance of UCBs as well as loan distribution of UCBs with priority and weaker section.49

Bhagat Kishori J (2010), in his paper “Issues of Urban Co-operative Banks in India”, has highlighted problems of capital inadequacy, growing NPAs, lack of professionalism in the management, etc. and made a few open suggestions. Cooperative banks act as a very important channel for credit allocation to the

small borrowers. Thus, author states that improving their functioning through a better regulatory structure can provide further impetus to economic growth and poverty alleviation.\textsuperscript{50}

Joffy George Chalakkal & K.Sasikaumar (2010) review the important aspects relating to corporate governance in banks. The paper reveals that new strategy of supervision recognizes strong corporate governance function supported by competent management as the first line of defense in supervision of banks and financial institutions.\textsuperscript{51} Atul Mehrrotra, (2010), states that he promotion of corporate governance in banks has assumed greater importance and urgency today than ever before. This paper discusses corporate governance related aspect in banks as also touches upon the principles for enhancing corporate governance in banks as suggested by Basel Committee on Banking Supervision\textsuperscript{52}.

Saha Amitra (2010) has made a study on “Urban co-operative Banks: A Case Study of Karnataka. Author selected Eight UCBs in Bangalore City for study. He states that future of UCBs is challenging and depends on transparency in control and operation, governance, customer-centric policies, technology-up gradation and efficiency. It was observed that a major reason for the good performance of the grade-1 & grade-2 banks in Karnataka was the profitable fund deployment & successful recovery efforts. An Urban Cooperative Bank must strive to ensure financial stability. Sound Fund Deployment Strategy is the first & most essential step to maintain profits. He suggested better & improved Recovery efforts to keep NPA levels under control and certain innovative schemes such as recovery camps are a fruitful step in this direction.\textsuperscript{53}

“Report of the Expert Committee on Licensing New Urban Co-operative Banks”, RBI, (2011). With a view to increase the coverage of banking services amongst local communities, it was proposed in the Annual Policy Statement for the year 2010-11 to set up a Committee comprising of all stakeholders for studying the advisability of granting new urban co-operative banking licenses under Section 22 of the Banking Regulation Act, 1949 (AACS). In the Second Quarter Review of Monetary Policy 2010-11, the Committee was advised to look into the feasibility of an umbrella organization for the Urban Co-operative Banks (UCB) sector.54

Patil Mahesh B (2011), in his paper “A Study of Absenteeism among the Members of Urban Co-operative Banks in Annual General Meeting” attempted to have an indicative study to surface the major reasons contributing to the absenteeism of members. The study covered Three Urban Co-operative Banks viz. The Abhiravi Sahakari Bank Ltd., The Dombivli Nagarik Sahakari Bank Ltd. and The Kalyan Janta Sahakari Bank Ltd. The sample size is of 110 members who have not attended the last three consecutive AGMs. 55 Williams Harley Tega (Oct 2011), in his paper revealed the impact of banks characteristics, financial structure and macroeconomic indicators on banks’ Capital base in the Nigerian banking industry. The study examines the determinant of Capital adequacy in Nigeria during the period 1980 - 2008 within an error correction framework. Co-integration technique revealed that economic indicators such as rate of inflation, real exchange rate, demand deposits, money supply, political instability and return on investment are most robust predictors of the determinants of capital adequacy in Nigeria. The study examines the relationship between bank capital base and macroeconomics variables. This implies that political stability may reduce financial distress and bankruptcy while foreign investment will affect Banks’ capital in most developing economy in the period of financial crisis. However, the study also establishes that there is a negative relationship between inflation and banks

capital base as inflation erodes banks capital in most developing economies. This simply means that Nigerian government should regulate investment policy while banks regulators should strive to keep inflation rate at a minimum level, if possible, below 5% for them to be more efficient so as to be globally competitive.\(^{56}\)

Mr. Anupam Mitra, (2011) the paper makes an attempt to give an overview of corporate governance of urban co-operative banks in India. This paper argues that to exercise proper control on banking operation in order to safeguard depositors and other stakeholders’ interest, good Corporate Governance is a mind set, a question of value system, a way of keeping one above one’s personal interest assigning priority to the co-operative interest and the way in which those with power, use that power. It is the reflection of quality of management. This paper states to implement standard practices on “Good Corporate Governance” for urban co-operative banks to improve their administration, business and control system and as a result this will ensure them a competitive edge in the changed scenario under open market economy.\(^{57}\)

Christopoulos Apostolos G. & Mylonakis John, Pavlos Diktapanidis (2011) in their research paper discussed the case of Lehman Brothers by analyzing its financial particulars of the last five years (2003-2007) using the CAMELS ratios. Research results showed that its credits were found as bad and doubtful while its management appeared to be unwilling and unable to reverse its declining course. Also, the management was not complying with the rules set by the supervisory authorities while the risk management methods followed were regarded as insufficient proportionally to its size. Finally, the bank appeared to be vulnerable against risks or unstable conditions while the supervisory authorities and the US Federal Reserve should have foreseen that


Lehman Brothers presented several signs of decline and reacted accordingly. Authors concluded that credit rating agencies should, also, review their way of operation in such a way as to ensure transparency of assessments and maintain their international market worthiness.58

Hamid Mehran, Alan Morrison, and Joel Shapiro, (June 2011), this paper presented preliminary findings and was distributed to economists and other interested readers solely to stimulate discussion and elicit comments. This paper begins by explanation why governance of banks differs from governance of nonfinancial firms. This paper looks at four areas of governance: executive compensation boards, risk management and market discipline and discusses promising solutions and areas where further research is needed.59

Dr. Justin Nelson Michael, (December 2011), paper focuses on default of Co-operative credit in Cuddalore Dist. Tamil Nadu. This paper states that short-term NPAs occupies bulk of the NPAs, the study of default of co-operative credit in the Primary Agriculture Co-operative Banks in the district identified factors like annual income, landholding, annual expenditure and over dues as significant in discriminating between willful and non willful defaulters. Finally, stringent measures to control and prevent NPAs besides effective credit monitoring and use of effective execution of decrees besides various avenues of recovery, especially compromise settlement would contain the problem of NPAs effectively.60

Dr. K.V.S.N.Jawahar & B.Muniraja Selkhar (2012) in their research article “The Emerging Urban Co-Operative Banks (UCBs) In India - Problems and Prospects” revealed that the Urban Banks are important purveyors of credit to

59Hamid Mehran, Alan Morrison, and Joel Shapiro, June 2011, “Corporate Governance and Banks: What Have We Learned from the Financial Crisis?”, Federal Reserve Bank of New York Staff Reports, no. 502, June 2011, JEL.
small borrowers and to weak sections of the society but are not coming out with any supportive policies that can strengthen the role of UCBs. Authors suggested few procedures for strengthening the UCBs sector such as professionalization of its management, inculcating good corporate governance, technology absorption and scrupulous adherence to regulatory framework.61

Sant Seema and Chaudhary P.T (2012) made a research paper entitled “A Study of The Profitability of Urban Co-operative Banks in Greater Mumbai and Jalgaon for 5 Years”. This paper evaluates the performance of Urban Cooperative Banks for the period 2004-2009. Financial ratios are employed to measure the profitability, liquidity and credit quality performance of ten Urban Cooperative Banks from Jalgaon and Mumbai. A significant change in trend is noticed at the start of the global financial crisis in 2007, reaching its peak during 2008-2009. This resulted in falling profitability, less liquidity and deteriorating credit quality in the Indian Banking Sector.62

Shirasi R.S (2012) in his paper entitled “A Study of Financial Working and Operational Performance of Urban Co-operative Banks in Pune District”, found that due to liberalization and globalization, the UCBs are facing the problems of competition from public sector banks, private banks, foreign banks and other UCBs as well. The main purpose of the research was to study the financial working and operational performance of UCBs in Pune district.63

Sinha Anand(2012) spoke on “Financial Inclusion and Urban Co-operative Bank” at the launch of Financial Inclusion Programme of Cosmos Bank at Pune that The Co-operative movement has a long history in India. Co-operative societies were set up in India towards the close of the nineteenth century drawing inspiration from the success of experiments related to the co-

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operative movement in Britain and the co-operative credit movement in Germany. Since inception, the UCBs have been playing an important role in the socio-economic development of the country by making available institutional credit at affordable cost, particularly, in the urban and semi-urban areas. Despite their large number, UCBs constitute a very small market share with 3.5 per cent (as of March 31 2010) of the total banking sector.64

Ramchandram & Shanmugam Siva (2012) presented a research paper entitled “An Empirical Study on Financial Performance of Selected Scheduled Urban Cooperative Banks in India”. The research paper was a good attempt to study the financial performance of Urban Co-operative Banks in India, which were covered under schedule II of RBI Act. In this regard, schedule II of RBI Act consists of 55 Urban Co-operative banks. The researcher aimed to analyze the financial performance of 10 Urban Co-operative banks for sample study. Urban co-operative banks exhibited a greater emphasis on product diversification, customer orientation thrust towards retail banking, adoption of IT for improved service, better MIS and management and strategic mergers and acquisition across bank groups. The relative performance of each bank has been assessed in the context of Resources Deployed, Assets Quality, Management Productivity and Earning Capacity variables.65

B.Muniraja Sekhar and B.Sudhir (2012) in their paper entitled “Core Banking Solution in Urban Co-operative Banks - Issues and Challenges” put forward that cooperative banks, have been laggards when it comes to technology adoption. They discussed issues pertaining to CBS i.e. according to industry watchers; technology deployments like CBS are a big challenge in co-


Ratnakar Devale (2012) in his report explained how to control expenditure, importance of sources and application of funds. This article explained the relation between income and expenditure, and various services provided by the banks and cost benefit analysis. This article explained the role of board of directors for funds management. Devale Ratnakar (2012) Co-operative Banks -Funds management and Expenses (Costing Ex.CEO (RBI), Pune District Urban Co-operative Banks Association Ltd. Pune, diary, Report 2012.

Bhave P. (2012), explained role & responsibilities of CEO. Mr. Bhave states the importance of credit risk management, team building, return on investments etc. Mr. Bhave explains the importance of qualities & qualification and training, opportunities of CEO. His article states how to implement the skills of CEO for the development of banks.\footnote{Bhave P.Bhave, 2012, "Chief Executive Officer- rights & responsibilities", CEO, Janta Sahakari Bank Ltd. Pune, Pune District Urban Co-operative Banks Association Ltd.Pune, Diary, Report.} Mr. Deshmukh (2012) explained role and responsibilities of director for implementing strategies. The article states that co-operative banks required alert directors, transparency of information, proper coordination between directors strategy and procedures.\footnote{Adv. M.M. Deshmukh, 2012, Vice Chairman-Pune Urban Co-operative Bank ltd. Pune “Directors strategy & procedures Coordination” Pune District Urban Co-operative Banks Association Ltd.Pune, Diary, Report 2012.}

J.M. (Hans) Groeneveld and David T Llewellyn, (2012, give an overview of the corporate governance issues related to cooperative banks. This paper seeks to place these governance issues in a broad analytical framework, and to consider their strengths and potential weaknesses in theory and reality. A distinction is made at the outset between Shareholder Value (SHV) banks and Stakeholder Value (STV) banks. The article states that cooperative banking is not a panacea for post-crisis banking in general, but should be viewed as a
viable, enduring and parallel alternative to the SHV banking model that has been in the spotlight for most of the time in recent decades.  

E Gnansekaran, M.Anbalgam and N. Abdul Nazar (2012) in their research work paper entitled, “A study on the Urban Cooperative Banks Success and Growth in Vellore District - Statistical Analysis” was made to forecast the role of the UCBs in future through time series analysis, Coefficient of correlation, chi-square test, Multiple regression and analysis of variance. For checking the progress of UCBs, a detailed and systematic assessment of its selective variables like share capital, deposits, loans and advances was done. The overall performance of the UCBs in all fronts was showing a significant and undisturbing trend.

Das Mihir and Charls Christable, (2012) made research study entitled, “An Analysis of the Technical Efficiency of Banks in India”. The present study investigates the technical efficiency of Indian banks, segmented in terms of ownership. For this purpose, the Data Envelopment Analysis (DEA) model was used with five input variables (borrowings, deposits, fixed assets, net worth, and operating expenses) and four output variables (advances and loans, investments, net interest income, and non-interest income), and the efficiency scores were calculated for a sample of 49 major banks operating in India. The findings of the study help in identifying the inputs and output that each of the banks would need to control and streamline to enhance their efficiency.

M Selvakumar and M Nagalakshmi, (2012) have studied the Earning Quality of Scheduled Commercial Banks in India. They discussed that the commercial banks play a very important role in India. Interest income, non-interest income and spread are the important avenues of banks’ profitability. Subsequent to economic reforms, Indian banking system has undergone a sea change.

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Against this backdrop, the income and expenditure pattern of scheduled commercial banks in India has been analyzed and trend analysis of earnings quality has been undertaken with appropriate statistical tools, and based on the findings, suggestions have been offered for improving the overall performance of Indian banking Industry.72

Mitra Anumap (2012) studied “Evaluation of Credit Risk Management in Urban Co-operative Banks - A Study in Hooghly District”. The study was conducted to make a humble attempt to enquire about the cause and effect of credit risk in the UCBs in Hooghly District of West Bengal during 2004-05 to 2010-11. The recommendation of the researcher revels that the bank needs to prepare a comprehensive perspective plan for product diversification to maintain a competitive edge in the market. The urban co-operative banks, with their new formed emphasis on prudential norms, need a high degree of professionalism in management. Banks may have to quickly better their risk management practices and integrate them into business strategy and implementation.73

Mishra Aswini Kumar, G.Harsha, Shivi Anand and Neil Rajesh Dhruba(2012) in their paper “Analyzing Soundness in Indian Banking: A CAMEL Approach” analyze the performance of 12 public and private sector banks over a period of eleven years (2000-2011) in the Indian banking sector. For this purpose, CAMEL approach has been used and it is established that private sector banks are at the top of the list, with their performances in terms of soundness being the best. Public sector banks like Union Bank and SBI have taken a backseat and display low economic soundness in comparison. This study analyzes the various aspects of convergence and soundness in the Indian Banking sector, computes various factors affecting and determining the two using econometric analysis and provides policy suggestions on tackling

obstacles encountered while achieving soundness and convergence and how to maintain stability for longer periods.\textsuperscript{74}

Shirish R. Kulkarni & Chirag P. Surti (2012), in research paper “Performance and problems of UCBs in India”, state that banking sector in India plays a very important role in the country’s economic growth. In banking sector major reforms have taken place particularly after 1991. Co-operative banks are one which is facing a number of problems and such banks are unable to survive against public sector, private sector and foreign banks. The UCB’s are facing the problems of Non-performing assets since so many years which indicate the performance of UCB’s in India. The number of UCB’s in India has declined due to the increase in NPA and the RBI directive imposed over UCB’s and large numbers of merger / amalgamation had taken place in the co-operative sector. In this paper the authors try to analyze the NPA’s of UCB’s and had taken the period from 2001 to 2011 for the study.

Dr. V.V.Ghanekar (2012), in his book “Globalization and farmers, industries, co-operatives, banks in India” states his observations for the two decades 1991-2011. The author explains India’s strength for meeting globalization challenges. The author states the globalization of credit co-operative and co-operative banks in India and explains the need of code of corporate governance in co-operative banks. Author observed the effect of globalization on banks in India with reference to the role of public and private sector banks in India. This book explained the positive outlook of farmers, co-operatives, industries and banks towards the globalization.

S.Thyagarajan (2013) explained the Role of The Chief Executive Officers of Urban Co-operative Banks. He discussed about functional responsibility of Chief Executive Officer, Quality of a good CEO and development Role. Author explored that in a view of the pivotal role played by the CEO, the Board should take care to select a well-qualified and experienced person. He

should be provided an opportunity to develop his personality, skills and to enrich his knowledge. He should be entrusted with adequate powers for discharge of his duties.  

Deepti Tripathi, Kishore Meghani, Swati Mahajan (July-2014) in their research paper “Financial Performance Of Axis Bank And Kotak Mahindra Bank In The Post Reform, Era: Analysis On CAMEL Model”, analyze the Financial Position and Performance of the Axis and Kotak Mahindra Bank in India based on their financial characteristics. Authors had chosen the CAMEL model and t-test which measures the performance of bank from each of the important parameter like capital adequacy, asset quality, and management efficiency, earning quality, liquidity and sensitivity. The present study is conducted to analyze the consistency of the profitability of the Axis and Kotak Mahindra banks. It is found that the ratio of credit deposit is maximum in Kotak Mahindra Bank Ltd and it shows efficient management of the bank. The ratio of earning per share is maximum for Axis Bank Ltd i.e. 50.28 and the ratio of return on Assets is minimum for Axis Bank Ltd. The CAMELS’ analysis and t-test concludes that there is no significant difference between the Axis and Kotak Mahindra bank’s financial performance but the Kotak Mahindra bank performance is slightly less compared with Axis Bank.

Dr. Sumeet Giram (July, 2014), author in his research paper “A study performance of urban co-operative banks in Beed District” states that development of a country depends on the industrial and agricultural development of the country which requires proper supply of funds at proper time. Urban co-operative banks plays significant role in meeting the requirements of small traders, agriculturists and middle income group people. At present there is highly competitive and globalized business environment, which needs a professional management for the successful controlling and

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managing the affairs of UCB. Moreover, political hindrance in co-operative sector has also affected the strong growth of the co-operative organization.  

Gajanan Shankar Joshi (Dec 2014), in his article “Insurance of Sahakari Bank and prejudice faces of depositors” explains the role of DIGCG towards the depositors. Author states that RBI cancelled the licenses of urban co-operative banks, which are not financially strong, in such cases depositors became panic. Author does not find the transparency from Deposit Insurance and Credit Guarantee Corporation Act for payment of claim to depositors.

Vidyadhar Anaskr (Jan 2015), in his article “Co-operative Banks financial Position and RBI Actions” states that RBI cannot take actions immediately, RBI gives sufficient times to banks for development and control the financial position of banks. RBI also gives opportunity for self-corrective action to those banks whose CRAR is less than 9% but more than 6%. Researcher explains the importance of Banking Literacy Abhiyan from the point of depositors.

2.3 Research gap
From the above review of empirical works, it is clear that different authors have approached corporate governance practices in different ways in varying level of analysis. These different approaches helped in the emergence of more and more literature on the subject over time. It gives an idea on extensive and diverse works on corporate governance in co-operative banks. The review of the exiting literature indicates that so far no specific work has been carried out to study of corporate governance practices in urban co-operative banks in Pune. Looking into the contribution of various authors, it can be observed that the corporate governance practices are being analyzed in a few financial

sectors. Some authors have considered financial performance approach in banking sectors. Some authors discussed various frauds and manipulation in financial institutions. A few researchers stated the importance of corporate governance from the point of view of investors. Research works in the area of urban co-operative banks also include risk factors, investment decisions, and responsibilities towards the customers. Corporate governance model in various countries is analyzed by a few authors. Some of the research works considered role of corporate governance in public sector banks and in private banks. A few researchers have done comparative study of corporate governance practices in nationalized banks and private commercial banks. It has been seen that review of governance practices in Gujrat state co-operative banks gives an idea on widespread and varied works in the discipline.

This research study is intended to employ different statistical, mathematical and accounting techniques for carrying out analytical study of corporate governance in urban co-operative banks. The approaches that are included in the study cover analysis of financial performance, bank performance, and corporate governance analysis in urban co-operative banks in Pune.