AN APPRAISAL OF FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN INDIA

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Abstract –

Indian banking sector has emerged as one of the strongest drivers for India's economic growth .The Indian banking system is among the healthier performer in the world , when compared with top three banks in total asset and in terms of return on assets .

A diverse range of studies have been conducted by the researchers for measuring the performance of the banks , which present different perspective with regards to the banks in different countries . Traditional bank performance evaluation systems primarily use factors such as return on investment (ROI) and return on investment (ROI) to assess the banks' financial performance. However , nowadays intellectual and managers of organization find the traditional system of performance evaluation have been typically based on financial views which are incomplete in evaluating overall performance of the organization and presenting an effective feedback. Excessive financial measurement may increase organization's short term profit , but bring about losing competitive situation and threatens long term profit . Customer happiness is critical to retail banking's profitability, which has a long-term financial influence on banks' operations. The efficiency and level of satisfaction of a bank's human resources determine its performance. Banks that have a high level of human capital efficiency and employee satisfaction do well. According to studies, banks that adhere to being socially responsible in their daily operations outperform in terms of financial performance.

In both the short and long term, there is a beneficial association between corporate social responsibility and bank financial performance. As a result, there are two key areas from which to assess a bank's total performance: financial factors and human aspects. The banking sector is extremely intellectually intensive, and its principal asset is its human capital, as staff expenses are the banking sector's largest operating expense. Human capital is a critical intellectual and strategic asset that helps banks become more efficient.

A bank's human resources determines its performance. Banks that have a high level of Human Capital Efficiency (HCF) perform well. Employee efficiency and contentment should both be protected, because employee unhappiness can change their efficiency into inefficiency at any time. In the service business, employee satisfaction is critical to achieving quality and profitability. Employee happiness leads to improved service quality and has a direct impact on customer satisfaction.

1.INTRODUCTION

The financial institution is critical in today's society. It is critical to a country's economic growth and serves as the foundation for money marketing in industrialised nations. Banking operations contribute to a stable economic system by boosting financial resources for industrial activities, which create employment and contribute to the general growth of the country. The monetary results of a firm's policies, performance, efficiency, and effectiveness are analysed using bank financial performance as a reference. The company's return on investment, return on assets, and profit margin all reflect these results. It also looks at how a bank makes the best use of its financial and other resources to make money. It aids in the expansion of financial resources for industrial activity.

Montek Singh Ahluvaliya, Deputy Chairman of the Planning Commission of the Republic of India, emphasises the importance of banks. In a country's economy, the banking system is extremely important. The financial system of a country is, in fact, the lifeblood of its economy. A banking institution is necessary in today's environment. It is vital to a country's economic development and acts as the backbone of its money market. The banking sector performs three main responsibilities in an economy: it manages the payment system, mobilises deposits, and allocates funds to investment projects. The financial sector's performance is dependent on the banking system, which is at its core.

Commercial banks' performance in terms of credit (loan), liquidity, and profitability was examined, and it was determined that commercial banks are less profitable, have less liquidity, and are more risky. Operational efficiency, asset management, and bank size all have a favourable impact on Omani commercial banks' financial success.

2. 1 OBJECTIVES OF THE STUDY

The relationship between financial indicators and commercial bank performance in India.

- To determine the relationship between customer satisfaction and bank performance.
- To determine the relationship between employee satisfaction and bank performance.
- Research and evaluate the relationship between corporate social responsibility and bank performance.

•Conduct a comparative analysis of India’s public, private, and foreign banks’ overall performance.

RESEARCH METHODOLOGY

This section covers the research methodology used in the current study, which includes secondary and primary data variables, population and sampling, development of tools/instruments, scientific standardisation, validity and reliability, conceptual model, statistical techniques used for quantitative and qualitative analysis, and conceptual model.

DATA ANALYSIS

This section covers the research methodology used in the current study, which includes secondary and primary data variables, population and sampling, development of tools/instruments, scientific standardisation, validity and reliability, conceptual model, statistical techniques used for quantitative and qualitative analysis, and conceptual model.

Table : Variables used for the secondary study

Serial No	Variable	Formula	Description	Expected Relationship with Performance
1	Liquidity (LQ)	Mean value of L1 + L2 + L3	L1 = Consumer & Short term funds to Total Assets, L2 = Credit Deposit Ratio L3 = Total Loans to Total Assets	Positive
2	Profitability (PR)	Mean value of P1 + P2 + P3	P1 = Interest income to total asset ratio, P2 = Noninterest income to total asset ratio, P3 = Net interest margin (NIM)	Positive
3	Efficiency (EFF)	Mean value of E1+E2+E3	E1 = Human capital efficiency (HCE) ratio E2 = Structural capital efficiency (SCE) ratio E3 = Capital employed efficiency (CEE) ratio	Positive
4	Asset Quality (AQ)	Mean value of A1 + A2 +A3	A1 = Net non-performing asset to net advances A2 = Gross non-performing asset to gross advances A3 = Loan loss provisions to total loans	Negative
5	Capital Adequacy Ratio	CAR = Capital (Tier I and Tier II) / Risk	Capital Tier I = Equity Capital and Free reserves. Capital Tier II = Debts	Positive
	(CAR)	Weighted Assets		

Research Question 1: Is there a link between bank performance and financial measures such as liquidity, profitability, efficiency, asset quality, and capital adequacy ratio?

Null Hypothesis 1 : There is no relationship between liquidity and performance of banks.

Null Hypothesis 2 : There is no relationship between profitability and performance of banks.

Null Hypothesis 3 : There is no relationship between efficiency and performance of banks.

Null Hypothesis 4 : There is no relationship between asset quality and performance of banks.

Null Hypothesis 5 : There is no relationship between capital adequacy ratio and performance of banks.

	Dependent Variable: ROA (Return on Asset), R Square = 0.781			
Model		Beta	t-value	Sig.
	Liquidity	.021	.011	1.962**
	Profitability	.245	.116	2.1060*
	Efficiency	.119	.139	0.854
	Asset Quality	-.356	.101	-3.537*
	Capital Adequacy	.082	.023	3.532*
Predictors: (Constant), LQ, PR, EFF, AQ, CA, ANOVA RESULTS: (F-Test = 13.220 which is significant at 0.01 level)				

Table : Regression Results

*Significant at 1% level of significance.

**Significant at 5% level of significance

OVERALL PERFORMANCE OF BANKS USING CONCEPTUAL MODEL

This section deals with the comparative analysis of the overall performance of the banks using the conceptual model . The overall performance has been measured as the weighted average of financial aspect and human aspect score of the banks.

Customer Satisfaction (CS) = Customer satisfaction score has been calculated as the mean of overall satisfaction of total number of respondents for each bank.

Employee Satisfaction (ES) = The mean of overall satisfaction of the entire number of responding employees for each bank was used to determine employee satisfaction scores.

Corporate Social Responsibility (CSR): For the period 2009-10 to 2011-12, the CSR variable was calculated as the mean value of the banks' CSR score. The banks' CSR score was obtained by summing the scores of Nine CSR-related criteria for each year.

FINDINGS

The following are the empirical findings from the data analysis chapter.

1. The return on assets ratio is positively associated to liquidity, profitability, and capital adequacy ratio in the study, but it is negatively related to asset quality.

2. According to a study of customer satisfaction in Indian commercial banks, convenience and excellence, bank workforce, and bank physical environment are the three main factors that lead to customer satisfaction. These variables influence overall consumer satisfaction in a good and meaningful way.

3. Job-specific characteristics, managerial conduct, working environment, training & development opportunities, interpersonal relationship, and salary & other perks are the six elements that lead to employee satisfaction in commercial banks, according to an analysis of employee satisfaction in banks. In Indian commercial banks, all of these criteria show a positive and significant link with overall staff satisfaction.

4. According to the findings of the study, there is no variation in customer and employee satisfaction levels based on the location of bank branches in different geographical locations.

5. From the study it has been found that there is a significant difference in the satisfaction level of customers and satisfaction level of employee on the basis of ownership structures of the banks.

CONCLUSION

Globalization boosted management's demand for performance measurement in the financial service sector, notably in banking activities. This paper proposes a complete methodology for evaluating the banking system's effective and productive performance utilizing financial and non-financial performance criteria in this context. The established model was used to determine the performance criteria, and the model's scope was expanded to include the performance of Indian commercial banks. In banks, the human factor clearly outweighs the financial aspect, according to the analysis. Overall, banks that perform well in three dimensions of the human component, namely corporate social responsibility, customer happiness, and employee satisfaction, are considered to be good performers.

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