REVIEW OF LITERATURE

Literature review is a study involving a collection of literatures in the selected area of research in which the scholar has limited experience. In the past, various studies relating to the financial performance of Regional Rural banks have been conducted by researchers.


P Janaki Ramudu and S Durga Rao (2006) conducted a study on A Fundamental Analysis of Indian Banking Industry, by analyzing the performance of SBI, ICICI and HDFC.

Gunjan M Sanjeev (2009) conducted a study on Efficiency of Indian public sector banks and found that the efficiency of public sector banks not increased during the period 2003-07.

R.C. Dangwal and Reetu Kapoor (2010) conducted a study on financial performance of commercial banks. In this study they compared financial performance of 19 commercial banks with respect to eight parameters and they classified the banks as excellent, good, fair and poor categories.


Dilip Kumar Jha and Durga sankar Sarangi (2011) conducted a study on Performance of new generation banks using modern techniques to rate the banks.
K.V.N. Prasad and A.A. Chari (2011) conducted a study to evaluate financial performance of public and private sector banks in India. In this study they compared financial performance of top four banks in India viz., SBI, PNB, ICICI and HDFC and concluded that on overall basis HDFC rated top most position.

Hosmani (1999) studied the Performance and impact of a RRB, (Malaprabha Grameena Bank) in Karnataka. A multistage stratified random sampling procedure was used for selecting the required samples. The pattern of credit flow was analyzed using Kendall's coefficient of concordance and the inequality index (Gini coefficient) was used to know the extent of concentration. A comparative assessment has also been made for the period of establishment and period of development. He found that liquidity ad solvency position of the bank was sound. The pattern of credit flow to beneficiaries remained unchanged as indicated by significant Kendall's Coefficient of Concordance (0. 90) and Gini Coefficient (0. 12) indicated a lower inequality in credit distribution among beneficiaries. Operating NRI account, export financing, procedure simplification, credit enhancement, long run planning and periodical evaluation were some of the recommendations made for enhancing the performance of grameena banks.

Deshpande et al. (1999) studied the impact of deregulation of interest rates in turning the loss making RRBs to profit making institutions. A sample of 15 RRBs were taken for the study and the information was obtained for the period 1996-97. They found that impact of deregulation of interest rates on profitability was felt more strongly via advances (through increased interest cost) compared to deposits (through increased interest income) compared deposits (through possible reduction in interest cost) and the combined impact on both advances and deposits on profitability was found to be limited.

Ruston Ali Ahmed (2004) study conducted on impact of financing by Rajshahi Krishi Unnayan Bank on agricultural development of Bangaldesh has revealed that
variations in farm and off farm production, income from agro-based trade, intensity of cropping, amount of cultivated area of uncommon crops, total and per capita consumption expenditure of the borrowers are found statistically significant higher than the non-borrowers. On the other hand, insignificant relations of working capital investment for farming and use of inputs with demand of bank credit are observed in case of small and large farms, but those are found significant in case of medium farmer’s credit delivery procedures and services of the sample bank do not satisfy the expectations of the borrowers. The study embodies that, the major problems associated with the bank financing are diversion of the borrowed fund, poor recovery of loans and high default rate, which are attributed to both the borrowers and the bankers.

A scan of the existing literature on the efficiency of Indian banks provides that there exists various studies that analyzed the efficiency of Indian commercial banks using most popularly used parametric technique of Stochastic Frontier Analysis (SFA) and non-parametric technique of Data Envelopment Analysis. To the author’s knowledge, there is virtually no study except Reddy (2005) and Khankhoje (2008) which analyzed the performance of RRBs by using frontier and data envelopment analysis approach respectively.

RRBs though operate with a rural focus are primarily scheduled commercial banks with a commercial orientation. Beginning with the seminal contribution of Haslem, the literature probing into factors influencing performance of banks recognizes two broad sets of factors, i.e., internal factors and factors external to the bank. The internal determinants originate from the balance sheets and/or profit and loss accounts of the bank concerned and are often termed as micro or bank-specific determinants of profitability. The external determinants are systemic forces that reflect the economic environment which conditions the operation and performance of financial institutions. A number of explanatory variables have been suggested in
the literature for both the internal and external determinants. Goddard et al. (2004) given the nature of banking business, the need for risk management is of crucial importance for a bank’s financial health. Risk management is a reflection of the quality of the assets with a bank and availability of liquidity with it. During periods of uncertainty and economic slowdown, banks may prefer a more diversified portfolio to avoid adverse selection and may also raise their liquid holdings in order to reduce risk. Credit risk is found to have a negative impact on profitability (Miller and Noulas, 1999) This result may be explained by taking into account the fact that more the financial institutions are exposed to high-risk loans; the higher is the accumulation of unpaid loans implying that these loan losses have produced lower returns to many commercial banks (Athanasoglou, Brissimis and Delis, 2005). The literature on RRBs recognizes a host of reasons responsible for their poor financial health. According to the Narasimham Committee, RRBs have low earning capacity. They have not been able to earn much profit in view of their policy of restricting their operations to target groups. The recovery position of RRBs is not satisfactory. There are a large number of defaulters. Their cost of operation has been high on account of the increase in the salary scales of the employees in line with the salary structure of the employees of commercial banks. In most cases, these banks followed the same methods of operation and procedures as followed by commercial banks. Therefore, these procedures have not found favor with the rural masses. In many cases, banks have not been located at the right place. For instance, the sponsoring banks are also running their branches in the same areas where RRBs are operating. The issue whether location matters for the performance has been addressed in some detail by Malhotra (2002). Considering 22 different parameters that impact on the functioning of RRBs for the year 2000, Malhotra asserts that geographical location of RRBs is not the limiting factor for their performance. He further finds that ‘it is the specific nourishment which each
RRB receives from its sponsor bank, is cardinal to its performance’. In other words, the umbilical cord had its effect on the performance of RRBs. The limitation of the study is that the financial health of the sponsor bank was not considered directly to infer about the umbilical cord hypothesis. Nitin and Thorat (2004) on a different note provide a penetrating analysis as to how constraints in the institutional dimensions have seriously impaired the governance of the RRBs. They have argued that perverse institutional arrangements that gave rise to incompatible incentive structures for key stakeholders such as political leaders, policy makers, bank staff and clients have acted as constraints on their performance. The lackluster performance of the RRBs during the last two decades, according to the authors can be largely attributed to their lack of commercial orientation. An appropriate restructuring strategy would require identifying the problems leading to the non satisfactory performance of the RRBs.

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