

# Performance Evaluation-A Comparative Study of Banking Sector in Bangladesh

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**Abstract:** Bank is very old institution that contributing toward the development of any economy and treated as an important service industry in modern world. Due to globalization and free market economy, the banking industry is facing severe competition in any country, as its functions are not limited to within the same geographical limit of any country. The overall performance of Bank does not only depend upon the banking industry itself but also on the performance of economy where it is operating. The Banking sector in Bangladesh is different from the banking sector as seen in developed countries and very competitive due to existence of different types of banking. This is one of the major service sectors in Bangladesh economy and can be divided mainly in to four categories- Nationalized Commercial Banks (NCBs), Private Commercial Banks (PCBs), Development Financial Institutions (DFIs) and Foreign Commercial Banks (FCBs). The performance of these banks differs widely within same group and individually. For the purpose of this study, analysis is kept within all these different types of banks.

**Keywords:** Bank, Globalization, Finance, Economy, Comparative Analysis

## 1 Introduction

In a developing country like Bangladesh, the banking system as a whole has a vital role to play in the process of economic development. There are near about 50(fifty) banks in Bangladesh. Though products and services are similar among the banks, we can differentiate among them by management structure, ownership, deposit collection, business expansion, income, expenses, service style, capital structure, liability structure for competitive analysis.

### 1.1 Objective of the Study

The specific objectives of the study are as follows:

- To measure the performance of cross section of banks from various angels
- To identify the possible reasons for variations in the performance of various banks
- To observe different aspects of different banks in Bangladesh
- To make a comparative study of different banks in Bangladesh
- To identify any limitations of different banks in Bangladesh if any
- To suggest measures for improving the activities and services of banks
- To suggest the possible lines of action to improve the performance of poor performance

## 2 Methodology of the Research

### 2.1 Sample Design

The statistics of all banks are taken as categorized basis.

### 2.2 Data Collection Method

Data for the purpose of the study is collected from the secondary sources.

### 2.3 Time Reference

Different banks started their various activities in a different period .So, for a uniform comparison and data availability the time reference of the study covers the years 2004 to 2009.

### 2.4 Data Processing and Analysis

A careful and systematic data processing system has been done manually after checking, sorting, editing and arranging data. Tabular Techniques has been used mainly to analyze data. Ratio analysis & graph are done through MS-Excel.

### 2.5 Scope of the Study

As the study has been concentrated on “Performance Evaluation-A Comparative Study of Banking Sector in Bangladesh”, so in terms of organization the study has covered the bank performance.

- The intra-group variation certainly existed. Since this study dealt with aggregate data, it could not unfold that variation & this is the limitation of the study.
- The depth of the analysis has been limited to the extent of information collected from different sources.
- Inadequate logistics such as limited access to the information as this researcher worked as an outsider of the banking system.

## 3 Performances Evaluation-A Theoretical Analysis

There are no unanimous yardsticks to measure performance of commercial banks. It becomes more difficult while comparing the performance of different categories of banks. However, authors, researches and academicians have identified a wide variety of performance measures for such a comparison. Considering the available literature and availability of data, attempt has been made to evaluate the performance of banking sector using seven indicators from the given twenty-four indicators reflecting five majors dimension of performance. The following part contains a brief explanation about each of the categories.

### 3.1 General Business Measurement:

#### 3.1.1 Indicators Analysis:

If the Total business is **High** the performance is **Good**

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If the Deposit is **High** the performance is **Good**  
If the Advance is **High** the performance is **Good**  
If the Advance deposit ratio is **High** the performance is **Good**  
If the Total income is **High** the performance is **Good**  
If the Net profit is **High** the performance is **Good**

### 3.2 *Profitability:*

#### 3.2.1 **Indicators Analysis:**

If the Return on assets is **High** the performance is **Good**  
If the Return on Equity is **High** the performance is **Good**  
If the Net interest income is **High** the performance is **Good**  
If the Net profit per unit of deposit is **High** the performance is **Good**  
If the Net profit per unit of advance is **High** the performance is **Good**

### 3.3 *Efficiency Measures:*

#### 3.3.1 **Employee efficiency measurement**

##### **Indicators Analysis:**

If the Deposit per employee is **High** the performance is **Good**  
If the Loan per employee is **High** the performance is **Good**  
If the Income per employee is **High** the performance is **Good**  
If the Profit per employee is **High** the performance is **Good**

#### 3.4 *Branch efficiency measurement*

##### **Indicators Analysis:**

If the Deposit per branch is **High** the performance is **Good**  
If the Loan per branch is **High** the performance is **Good**  
If the Income per branch is **High** the performance is **Good**  
If the Profit per branch is **High** the performance is **Good**

### 3.5 *Management Soundness:*

##### **Indicators Analysis:**

If the Total expenditure is **Low** the performance is **Good**  
If the Operating expense to total expense is **Low** the performance is **Good**  
If the Operating expense per employee is **Low** the performance is **Good**

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### 3.6 *Social Profitability:*

#### **Indicators Analysis:**

If the Branch Expansion is **High** the performance is **Good**

If the Employee Generation is **High** the performance is **Good**

If the Branch Employee ratio is **High** the performance is **Good**

If the Rural branch to total branch is **High** the performance is **Good**

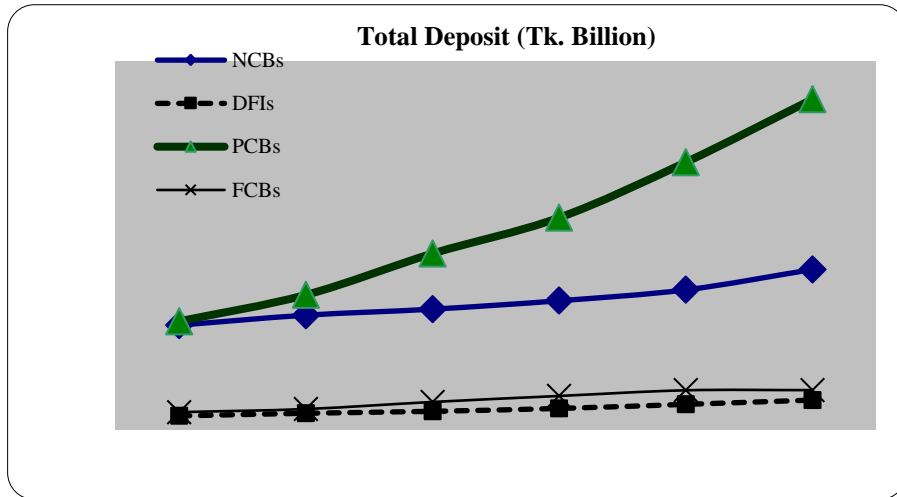
#### **4 Banking Industry in Bangladesh- A Synoptic View**

The government of Bangladesh (GOB) promulgated the Bangladesh Banks (Nationalization) order 1972 through which all the Pakistani banks and to local banks were nationalized into 6 nationalized banks namely: Sonali, Agrani, Janata, Rupali, Pubali and Uttara with 1116 branches. Nationalized Commercial Banks (NCBs) continued their operations virtually without any competition until 1983 when Government allowed operation of private banks in the country. In support of its privatization policy, the GOB denationalized to NCBs Uttara and Pubali bank in 1983 and Rupali in 1986. The two Govt. owned specialized banks were renamed as Bangladesh Krishi Bank and Bangladesh Shilpa Bank. In March, 1987 Bangladesh Krishi Bank was bifurcated and another specialized bank emerged as Rajshahi Krishi Unnnayan Bank (RAKUB) for Rajshahi Division. Banks of Small Industries & Commerce Bangladesh Ltd. (BASIC) started its operation as a private bank from September 1988. After that Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sanstha were consolidated and named as Bangladesh Development Bank in 2009. There are a good number of foreign banks operating in Bangladesh(Shamim, 2020). The branches of foreign banks operating in Bangladesh are being treated as foreign private banks. Due to the encouragement of private sector, the number of private banks has substantially increased over the year. As per annual report of Bangladesh Bank 2009-2010 there are 47 banks in Bangladesh those operate total 7246 branches in all over the country with total assets of tk. 4411.98 billion and total deposit of tk. 3329.08 billion in the year 2010.

#### **5 Analysis of Findings**

Data is collected for deposit, branch expansion, ROA, ROE, expenditure-income and net interest income. Accordingly, the data analysis part is discussed accordingly. Ratio analysis is needed for deposit per branch. The ratio analysis is shown in the appendix with the raw extracts.

### 5.1 Total Deposit:

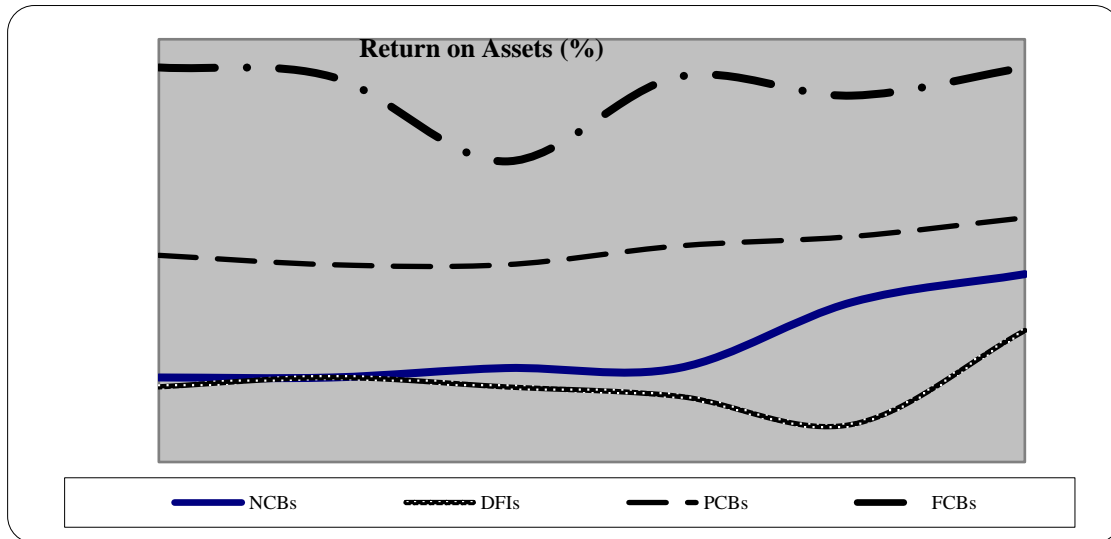


Each type of banks performance is good in terms of deposit collection. The total collection is increased year by year for each type of banks. However, PCBs achieve a high rate in this area among the all.

### 5.2 Causes for fluctuation in the growth rate of deposit:

1. For having, branches in remote areas NCBs and DFIs can collect deposit from root level people.
2. PCBs and FCBs target group is the high-income level people. Therefore, there is a vulnerable increase in deposit amount over the year.
3. Even the rural people are careful and motivated for savings. So, NCBs can collect more funds all over Bangladesh than the previous years.
4. The businesspersons are interested to operate accounts in FCBs for getting fast service in case of international business.
5. All of the categorized banks launch different deposit schemes for attracting customers.
6. People know come to believe in PCBs and FCBs for keeping deposit.

### 5.3 Return on Asset (ROA):

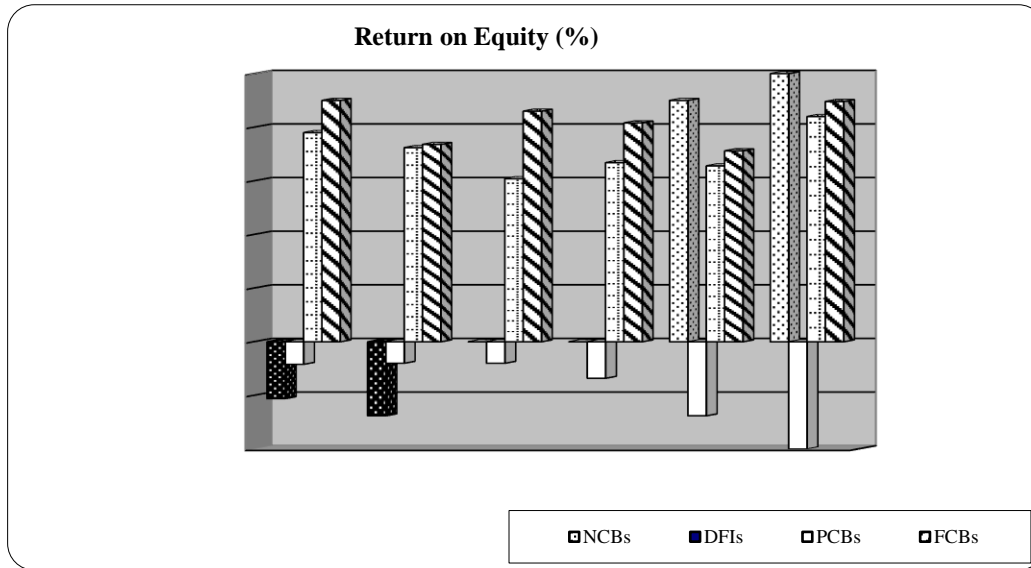


DFIs ROA decreases over the years and turned to be positive. After having negative position NCBs becomes stable in positive position. The ROA is highest for FCBs over the years. PCBs are also in a surplus position in each year.

### 5.4 Causes for fluctuation in the growth rate of ROA:

1. DFIs and NCBs have to be operated through corruption in different phases.
2. FCBs are very professional in managing assets and income.
3. FCBs are operated in a safety mode where no or less loss can be occurred.
4. The environment is supportable for PCBs to achieve steady growth.
5. Govt. is very anxious and takes initiative to run NCBs effectively. Therefore, NCBs achieve growth from negative position.
6. ROA of NCBs having in this position considering huge provision shortfall.

### 5.5 Return on Equity (ROE):



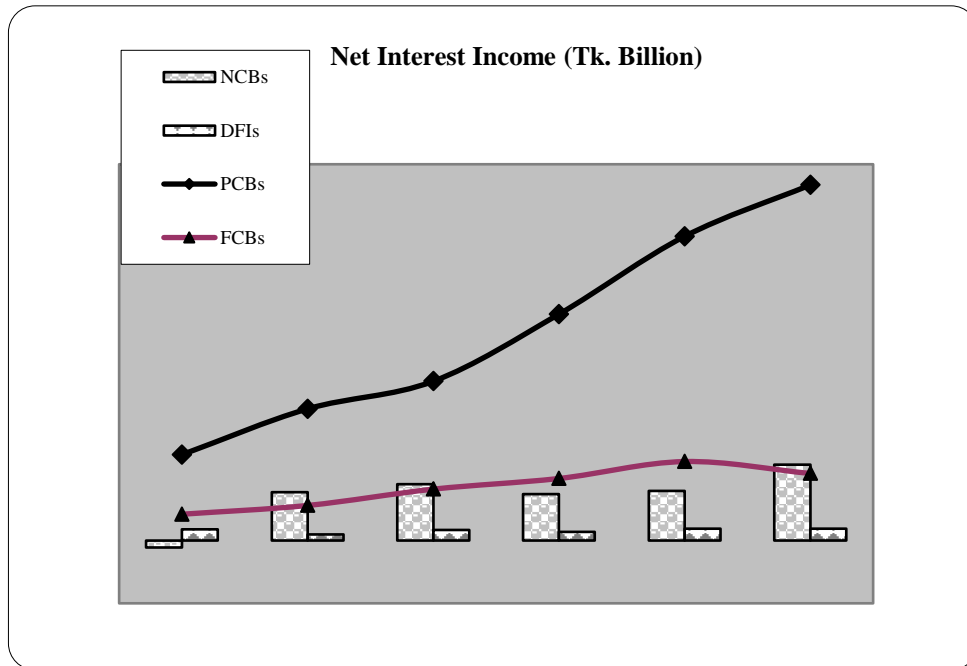
NCBs ratio is trending positive after negative trend. DFIs are always at a worse position with negative ratio. PCBs ratio is positive at a decreasing rate which is overcome in the last year. FCBs earned highest growth in comparison with other banks for each year.

### 5.6 Causes for fluctuation in the growth rate of ROE:

1. DFIs return made loan loss provisions by debiting loss in their record.
2. Negative growth occurs for NCBs due to inefficient employee, bureaucracy and lack of coordination.
3. Imbalanced political condition is a drawback for earning profit for each type of banks.
4. The economic growth of DFIs is not at a satisfactory level.
5. The management is skilled and efficient for earning profit in FCBs & PCBs.



### 5.7 Net Interest Income (NII):

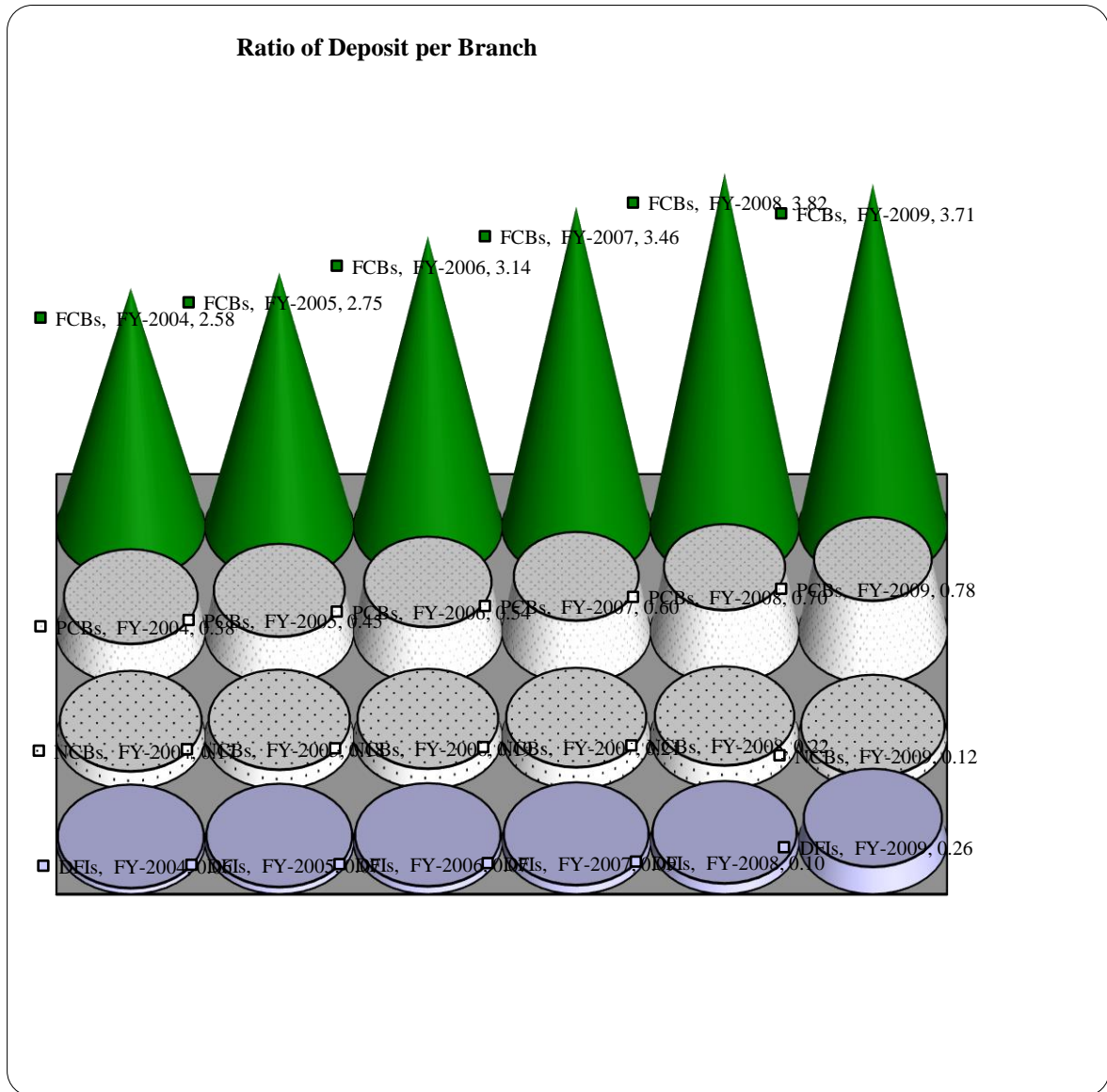


Each type of Bank's NII is increased over the years. But the growth is steady in terms of PCBs & FCBs where PCBs achieved the highest income in each year. NCBs developed from negative to positive NII though the growth is fluctuating. DFIs growth is positive but fluctuates year by year.

### 5.8 Causes for fluctuation in the growth rate of the of net interest income:

1. PCBs and FCBs interest income is higher than expense for systematic way of operations.
2. Good promotional activities of PCBs and FCBs to reach target group for collecting deposit.
3. NCBs and DFIs mostly deal with average income people.
4. Most of the people especially city people like to do business with PCBs.
5. NCBs reduce their cost of fund. So, their NII is higher than other.
6. The interest for advance is high in PCBs and FCBs.
7. The expenses are calculative and necessary for PCBs than others.

5.9 Deposit per Branch:



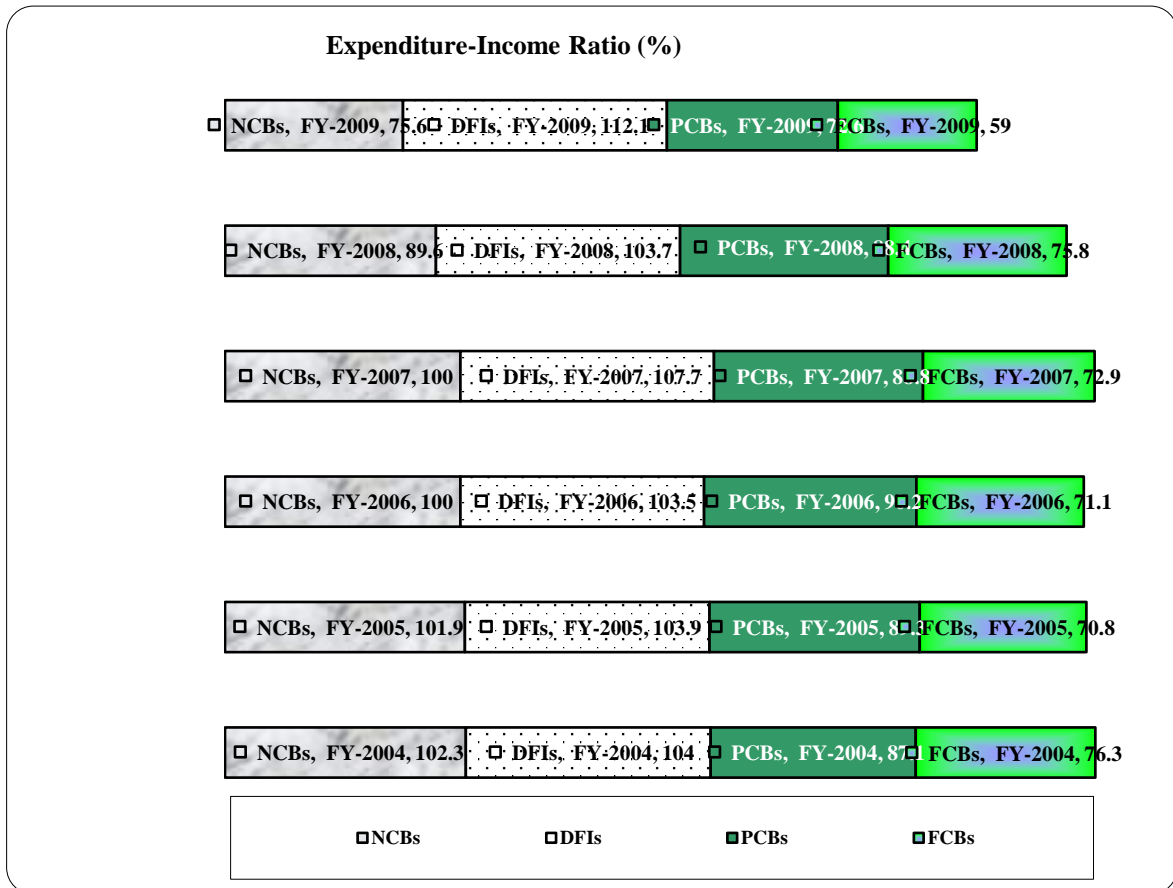
There is a steady growth for each type of banks. The ratio of FCBs is highest with a fluctuating manner.

5.10 Causes for fluctuation in the growth rate of deposit-branch ratio:

1. FCBs earn high deposit from their focus group with a few numbers of branches than any other banks.
2. DFIs are not sharp enough to expand the business than the number of branches they have.
3. Deposited amount of NCBs is not so high although NCBs have highest number of branches.

4. Now a day’s PCBs are interested to broaden the business with branch expansion. Overall, the growth is very steady in case of PCBs.
5. People are enriched with the advantages of banks. So, the growth become higher and higher in each of the year.

**5.11 Expenditure-Income Ratio:**



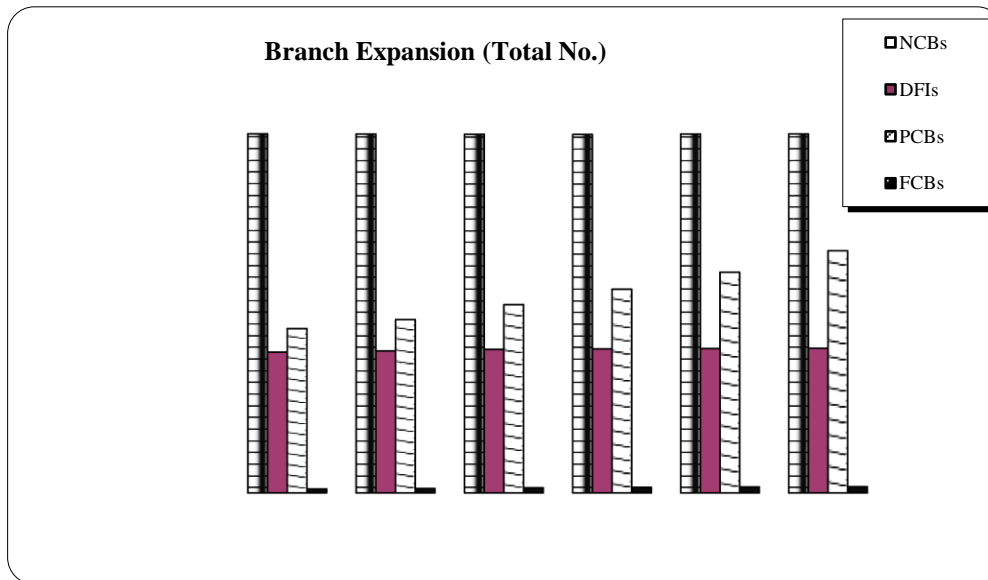
Each type of banks trended positive with a fluctuating way. The ratio is highest for DFIs which indicates the risky position for it. FCBs are in a good position among the others.

**5.12 Causes for fluctuation in the growth rate of expenditure-income ratio:**

1. NCBs administration and overhead expenses are very high.
2. PCBs are substantially high due to deduction of loan loss provision, other assets and corporate tax from current income.
3. DFIs operating loss is occurred due to RAKUB and BKB.
4. Different situation such as unstable political situation, strict regulations caused fluctuating ratio for FCBs.

5. Increasing corruption is a common scene for DFIs and NCBs.

### 5.13 Branch Expansion:



Though NCBs is highest position in case of branch expansion but the expansion rate is very low in comparison with PCBs. DFIs and FCBs branches also are expanding slowly. However, the number of branches is less than NCBs but its expansion happened with a higher rate for PCBs. But the total number of branches increases year after year.

### 5.14 Causes for fluctuation in the growth rate of branches:

1. FCBs focus only the urban community. So, Most of the FCBs branches are located in urban areas.
2. NCBs closed branches in rural areas due to inability to operate those branches.
3. DFIs open branches by the order of govt. where DFIs can cost low to operate.
4. PCBs are very much aggressive for business and so expand their branches from posh to district cities.
5. The income level of rural people is not so influencing for FCBs & PCBs.

## **6 Problem behind Development**

Behind every development there some problems exist. This study also detects some problems which are main hindrance of this industry.

NCBs: Bureaucracy is the main problem for NCBs. Lack of efficient management, good employees, professionalism, disability of loan collection are also cause loss to NCBs.

DFIs: Increasing loan loss provision, lack of restructuring and proper training for customer are major problems.

PCBs: Too much motivation for profit is main drawback for PCBs. Non commitment toward corporate social responsibility unable to create faith to customer.

FCBs: Centralization toward city including posh areas cause limited availability to mass people.

## **7 Conclusion**

The results show that as per ROA, ROE, Expenditure–Income Ratio and Deposit per Branch FCBs achieve the highest position than others. Modern banking system helps FCB to become topped. As per branch expansion NCBs is in good position among the all banks. This is because NCBs are spread all over the country. No other banks are dispersed in such a way like them. DFIs are very low in positioning every aspect. Lack of efficient management, unstructured policy and improper monitoring cause this problem. PCBs performance is good in term of deposit collection and Net interest Income among the all. Because, the combination of both NCBs and FCBs operating efficiency. PCBs has greater prospect of development. For the overall development of banking industry of our country all the four categorized banks should be combined. The problems from these four types of banks should be removed. Otherwise we would be concentrated only towards one type of banks.

## **8 Recommendations**

This study recommends the following ways for develop the overall performance of the banking industry:

The management of NCBs should utilize their resources to produce a given level of output. They can take actions to manage their cost structure, increase their interest rate to collect deposits and decrease their interest to disseminate credits. The Govt. takes initiative to restructuring the DFIs by providing efficient management, professional employees and attractive pay scale in comparison with other banks. Though the PCBs are running successfully to show better performance in productivity, profitability and operational efficiency, they should open branches more in the rural areas so that the rural people can get better services in the banking sector. FCBs can take initiative to perform social responsibility to attract the local customer along with the high income level customer. The internet based banking should be introduced to all over the country for better performance.

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