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FINANCIAL MANAGEMENT: A PREDICTOR FOR EXAMINING THE REGIONAL RURAL BANKS's PERFORMANCE

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Abstract: *A strong financial system is necessary for healthy and vibrant economy. It will result in achieving faster rate of economic growth. A banking sector constitute predominant element in financial services and performance of economy of any country. Therefore banking system occupies an important place in country's economy. In a developing countries like India, where the propensity to consume is high and saving of people are low, banks play important role. Banks contributing attracting more deposits from the people and deploying these saving for various sectors in the economy.*

The purpose of the study is to examine the factors of financial management which determines the regional rural banks' performance in lieu of the operational efficiency, capital adequacy, ratios, deposits etc. RRBs were setup in India for the purpose of taking banking service to the doorsteps of rural public, particularly in places without banking services The objectives of RRBs to develop the rural economy in providing for the purpose of development of agriculture, commerce, agriculture industry, small scale industries, cottage industries and other productive activities in the rural areas, credit and other facilities particularly to the small farmers, agricultural labour and small entrepreneur.

For this study to explore the factors, factor analysis has been applied and finally explored five factors which are included in the financial management. To study the same, regional rural banks of M. P. have been selected and through self-structured questionnaire, data was collected from the bank officials.

Keywords: *Financial Management, Banks' Performance, Operational Efficiency, Banking Services*

Introduction

Firstly, Five Regional Rural Banks were set up on October 2, 1975 which were sponsored by State Bank of India, United Bank of India, , Punjab National Bank, United Commercial Bank and Syndicate Bank. Normally, the operational area of each Regional Rural Bank is confined to a compact area of one to five revenue districts with homogeneity in agro climatic conditions and rural clientele. The Regional Rural Banks were to open their branches in the unbanked and under banked centres where the prime agricultural credit society and cornmercia1 banks are weak and are unable to cater to the credit needs of the weaker sections. This study focused on the working profile of three banks specifically. These are Narmda Jhabua Gramin Bank, Madhyanchal Gramin Bank and Central M.P Gramin bank in Malwa region.

In present era of globalization and privatization (GDP) of India is expanded at the rate of 7.7 percent, Agriculture has started occupies a top position in Indian policy-making not only because of its contribution to GDP but also because of the large percentage of the population that is still dependent on the sector for its livelihood. The growth in population and wealth has stimulated demand to the extent that domestic production has not always been able to keep up and there is increasing speculation that the Indian economy may be overheating leading to inflation. However, the banking sector has witnessed a huge growth in the recent years. Despite such a growth, the credit flow by banks to the rural and agricultural sectors remains dismal, which, more or less, has resulted in financial exclusion of the rural masses. Regional rural banks have to play up major role to finance and provide landings to agriculture sector at diminishing rate of interest in order to grow the economy and GDP. It requires better financial management of the RRBs.

This study concentrates on the principles of bank management of assets and liabilities. The course has an applied feel to it as it mainly focuses on the microeconomic problems of financial management of banking firms. The study helps financial management reduce the misuse of funds, Proper estimation of total financial requirements**,** Proper mobilisation**,** Proper utilisation of finance**,** Maintaining proper cash flow**,** Increase efficiency**,** Reduce cost of capital and maximize the profit in long run of RRBs.

REVIEW OF LITERATURE

Sharma, Akhil in his Research Paper titled "Regional Rural Banks (RRB)-analysis and Performance" (2014) states that." Regional rural Banks plays a vital role in the agriculture and rural development of India. The RRB's have more reached to the rural area of India, through their huge network. This study attempts to analyze the financial performance of RRBs in India during the period 2006-07to 2010- 2011. An analytical research design of Key Performance Indicators Analysis such as number of banks and branches, deposits, loans, loans, investments and growth rate index is followed in the present study. The study finds and concludes that performance of RRBs has significantly improved."

Devi, N.Sabitha in her Research Study titled. "Problems and Prospects of Regional Rural Banks in India"(2014) found that "Banks play an important role in mobilization and allocation of resources in any country. Rural people in India are facing problems in adequate supply of credit. The major source of credit to rural households has been the informal sector. Rural banking is the process of conducting banking transactions out in the country where bank branches are too far away to be of use. Typically, an agent of the bank will visit these rural locations and offer to make transactions in an official capacity".

Dr. Pooja in her study "Dimensions of Himachal Gramin Bank- An Empirical Analysis" (2014) reveals that "Rural finance is considered as a crucial input in rural reconstruction and institutional finance is an important prerequisite in rural finance for rural development. The main objective of our study is- to assess the impact of facilities provided by HGB to the rural masses and to examine in depth the performance of HGB. The present study is confined particularly to Himachal Gramin Bank. Both primary and secondary data have been used for getting required information.

Gupta, D.R. and Khan, Iqbal in their Research Work "Performance of Regional Rural Banks: A Case Study Himachal Pradesh" (2014) argued that "Since their inception, regional rural banks (RRBs) have taken deep roots and have become a sort of everlasting part of the rural credit structure in India. Indian economy is an agricultural economy. This study tries to highlight the significance of Regional Rural Banks' in economic development of the state. The study seeks to analyze the secondary data which have been collected from the different authentic source of RRB's and from Government of India. The major objectives of the study are to study the financial performance of Himachal Pradesh Gramin Bank, to Study the deposit mobilization of Himachal Pradesh Gramin Bank and to study the credit expansion and to identify the challenges and threats which affect the performance of RRB's in Himachal Pradesh.

Paul, Dr. Uttam in his Research study " Micro finance Is An Anti-Poverty Tool For Rural Development: A Study"(2014) argued that "Micro-credit or micro finance is the extension of very small loans (micro loans) to the unemployed persons, to poor entrepreneurs, to households, to farmers and to others living in poverty who are often left out of the formal banking system, because of several reasons: their inability to provide collateral, the high risks in lending to them, the rigid formalities that are a part of the formal lending system and the high costs. As a result, the poor often have to resort to informal moneylenders, who charge high rate of interest and often exploit the situation. Micro finance is a novel approach to 'banking with the poor' and this system attempts to combine lower transaction costs and high degree of repayments. India's microfinance experiments are much differ from the more substantial microfinance institutions and programmes of its neighbors countries. Creating self employment opportunities is one way of attacking poverty and solving the problems of unemployment.

Roy, Swapan K. in his Research Study "Rural Development in India: What roles do NABARD & RRBs play?" (2014) revealed that NABARD plays asignificant role in developing rural economy. NABARD, being an apex Development Bank, facilitates credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also supports all other allied economic activities in rural areas. Regional Rural Banks (RRBs) in India were established in October 2, 1975. The policies and programmes undertaken by our government are designed with the aim of alleviation of rural poverty, which has been one of the primary objectives of planned development in India. In this backdrop, an attempt has been made in this paper to analyze and evaluate various policies/programmes/schemes undertaken by NABARD & RRBs for rural development".

OBJECTIVES OF THE STUDY

1. To identify the factors effecting on Financial Management in Regional Rural Banks in Madhya Pradesh.

2. To examine the impact of those explored factors on the performance of regional rural banks of M.P.

3. To make suggestions or the improvement in the Financial Management in RRBs of Madhya Pradesh.

HYPOTHESIS

H_{01}: There is no significant impact of factors of financial management on RRBs Performance.

H_{11}: There is a significant impact of factors of financial management on RRBs Performance.

RESEARCH METHODOLOGY

Research Approach: In this study exploratory and descriptive approach have been used in concluding the findings of the study**.**

Sample Size: Total 200 bank officials were selected on random sampling method**.**

Universe: Population consists of Bank Officials of three banks namely; Narmada Jhabua Gramin Bank, Central M.P. Gramin Bank and Madhyanchal Gramin Bank.

Time Period: For the study data of four years have been analyzed i.e from 2011-2015**.**

Data Analysis Tools: Factor analysis and Correlation & Regression were applied. The data coded in excel using Ms-Office package. The coded data was then analysed using SPSS version 20.0. The data was analyzed using descriptive statistics. First all questions were subjected to frequency analysis and item total correlation to check whether the scale is measuring any variation or not.

RESULTS & FINDINGS

The reliability of Cronbach's alpha is .982 so it may be concluded that there is a high degree of internal consistency. Thus, the scale can be considered as a reliable scale.

The exploratory factor analysis with principal components was conducted, after ascertaining above the data suitability to do so, to determine the factors affecting effectiveness of financial management in regional rural banks. This analysis includes preliminary tests to determine the appropriateness of factor analysis: Bartlett's test of Sphericity and the Kaiser-Meyer-Olkin measure of sampling adequacy (MSA). Bartlett's test of sphericity is a statistical test for the presence of correlations among variables. It provides the statistical probability that the correlation matrix has significant correlations among at least some of variables. This, a significant Bartlett's Test of Sphericity is required. The Kaiser-Meyer-Olkin measure of sampling adequacy index which can range from 0 to 1, indicates the degree to which each variable in a set is predicted without error by the other variables. If the MSA index reaches 1, each variable is perfectly predicted by the other variables without error by the other variables without error. A value of 0.50 or more from the Kaiser-Meyer-Olkin MSA test indicates that the data are adequate for exploratory factor analysis.

The Kaiser-Meyer-Olkin measure of sampling adequacy (0.729) and Bartlett's test of sphericity (0.000) indicate that the data were appropriate for factor analysis. Given these results, the exploratory factor analysis was conducted.

TABLE 1.1: ROTATION SUM OF SQUARED LOADINGS

Component	Extraction sum of squared loadings			Rotation sum of squared loadings		
	Total	% of variance	Cumulative	Total	% of variance	Cumulative
VR001	11.407	45.628	45.628	5.288	21.153	21.53
VR002	2.584	10.334	55.963	4.290	17.162	38.315
VR003	1.704	6.815	62.778	4.140	16.559	54.873
VR004	1.590	6.632	69.139	2.420	9.681	64.555
VR005	1.270	5.080	74.29	2.46	9.665	74.219
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VR025						

Above all five factors have been explored. These are:

Recovery of Loan, Loan sanction & Disbursement, Liberal Credit Policy, Operational Efficiency & Employees' Knowledge.

The factor analysis was done for all the 25 variables. All these variables have reduced to five different factors, which explained around 74.219% of the total variance. The first factor with their loading pattern indicates that a general factor is running through out all the items explaining about 21.153% of the variance. The second factor explains about 38.315%, third factor explains 54.873%, the fourth factor explains 64.555% and the fifth factor explains 74.219%. The entire five factors explain about 74.219% of the total variance.

Regression Analysis

The concepts and principles developed in dealing with sample linear regression (i.e., one explanatory variable) may be extended to deal with several explanatory variables.

Multiple Regression Equation:

$$Y=C+\beta x_1+\beta x_2+\beta x_3+\beta x_4+\beta x_5+\text{--------}+\beta x_n$$

The second result of the regression analysis, i.e., t-test along with significant value (P-value), indicates the most significant explanatory variable that influences the explained/dependent factor. Along with the t-test, the multi-colliniearity test is also used to measure the collinearity among the explanatory variables.

TABLE 1.2 : MODEL SUMMARY OF FACTORFFECTING FINANCIAL MANAGEMENT (ANOVA)

Items	Sum of Squares	Df	Mean Square	F	Sig.
Regression	210.562	4	52.640	1349.743	0.000
Residual	10.385	194	0.0390		
Total	220.946	200			
R Square	0.953	Adjusted R Square	0.952	Std. Error of the Estimate	0.253

The ANOVA (F-Test) indicates that the scale/factor was quite significant in M.P region. All the explanatory variables, i.e., five factors for studying factors affecting financial management are quite significant. The R square value of the above model is 0.953, which means the dependent variable (Financial Management) is influenced by all this five explanatory variables by 95.3%, which is a good indicator for establishing a well set effectiveness of factors. Further it is seen that for the table that the significant value (p-value) of F-test are 0.000, which means that all five explanatory variables are highly significant with respect to the explained factor i.e., that is Factors affecting financial management.

TABLE 1.3: FACTORS AFFECTING FINANCIAL MANAGEMENT (MULTIPLE REGRESSION COEFFICIENT ANALYSIS) COEFFICIENTSA

Parameters	**Unstandarized coefficients**		**Standarized coefficients**	**T**	**Sig.**	**Tolerance Statistics**	
	B	**Std. error**	**Beta**			**Toleran ce**	**VIF (Variance Inflation Factor)**
Constant	**0.075**	**0.060**		**1.250**	**0.213**		
Factor 1	**0.273**	**0.020**	**0.313**	**13.806**	**0.000***	**0.561**	**1.782**
Factor 2	**0.241**	**0.022**	**0.272**	**11.039**	**0.000***	**0.474**	**2.111**
Factor 3	**0.268**	**0.025**	**0.274**	**10.817**	**0.000***	**0.449**	**2.229**
Factor 4	**0.240**	**0.019**	**0.305**	**12.447**	**0.000***	**0.479**	**2.089**
Factor 5	**0.243**	**0.021**	**0.315**	**11.138**	**0.000***	**0.481**	**2.185**

- ***Significant at 1% level***

Based on the multiple regression output tables of ‘factors affecting financial management’ and its constituent variables, the following equation can drive:

$$\mathbf{M\ (Y)=0.075+0.273\ (F1)+0.274\ (F2)+0.268\ (F3)+0.240\ (F4)+0.243\ (F5)}$$

This can be interpreted that the increase of 1 unit of delivery of Factor 1 (Recovery of Loan), may incur the raise of 0.273 units in Financial Management (FM) (Y). However, for the independent variable of Factor 2 (Loan Sanction & Disbursement), every 1 unit of increase will incur the raise of 0.241 units' dependent variable, (FM). On the other hand, 1 unit increase in Factor 3 (Liberal Credit Policy) may incur the raise of 0.268 units of FM. Similarly, 1 unit increase in Factor 4 (Operational Efficiency) may cause 0.240 units of FM. Finally, Factor 5 (Employees Knowledge) also has a constant relation with FM. It is every 1 unit increase in F5 (Employees Knowledge) incurs the raise of 0.243 units in FM.

Further, it is seen form the table that the significant value (p-value) of t-test for all items are 0.000, which means that all the five reduced factor through factor analysis are highly significant with respect to the explained factor, i.e., 'Factors affecting financial management.

FINDINGS

The above mentioned five factors were explored to examine the attributes of Financial Management and significantly these have the greater impact on the performance of regional rural banks' operations & functions. These factors are as follows:

Recovery of Loan: This factor depends on the operational efficiency of banks to recover the amount from the customers.

Loan Sanction & Disbursement: The financial management includes the sanctioning and disbursement of loan effectively and efficiently. As it is difficult task to explain the terms and the mode of payment to those rural customers.

Operational Efficiency: The performance of the banks depend on the operational functions as it includes the various measures such as; prompt service, complaint handling, sustaining CRM etc.

Liberal Credit Policy: The banks have to maintain CRM through credit policy that should be liberal.

Employees' Knowledge: Overall the strength of the banks are always lies in the employees knowledge. This is the important factor as they are in direct touch with the customers.

The above mentioned factors are important in examining the financial management aspects. Above all the bank's performance depends upon these mechanisms. For this study the period from 2011-12 to 2014-15 as on March, 31 (Four Years) have been selected

CONCLUSION

The RRBs are playing a predominant role in the socio-economic development of rural poor. In spite of all the policies and practices of financial aspects, there should be continuous monitoring for the evaluation of financial performance with regards to inflow and outflow of funds, banks' performance parameters such as; investment, deposits, profitability, capital adequacy etc. The regional rural banks would be a 'model financial infrastructure' for rural development with patronage and encouragement given by planners in the field. Thus, the State sponsored, regionally based and rural oriented commercial banks have taken birth in rural India which popularly known as 'Regional Rural Banks'. These banks penetrate every corner of the country and have been extending a helping hand in the growth of the economy. Despite the RRBs journeyed over three decades, they have achieved performance to the expected level quantitatively not turning towards sound financial management and productivity. Moreover the achieved performance is not uniform though they are working under the approach of same management.

Effective performance is the success of every business. In order to achieve the effective and efficient performance, the RRBs (Central M.P. Gramn Bank, Madhyanchal Gramin Bank & Narmada Jhabua Gramin bank) have been selected from the year 2011-12 to 20154-15.. In every line of business, the performance of each bank is appraised in financial perspectives and ranked them. In this study an attempt is made to discuss the financial performance of selected regional rural banks during the studied period.

SUGGESTIONS & RECOMMENDATIONS

In the light of the findings of the study, the following suggestions are made for improving the performance of the regional rural banks.

- From the findings it is revealed that the bank has adequate capital in terms of total assets. Therefore it is suggested to the banks that they should increase more profits in lieu of the loan disbursement, borrowings, investment in different avenues and also should reduce the liabilities from outside from the customers' perspective.

- In compiling of the data some fluctuations were observed so, it is recommended to the banks they should attract more customers to open their account so that profit per employee may be increased.
- The rural banks should implement certain innovative methods and measures for savings or schemes which suited to the needs of the people in order to attract a large population for making deposits.
- The banks have to give proper attention to reduce the risk ratio. It is suggested to the banks to take care and follow rules and regulations governed by RBI guidelines.
- Further it is recommended that the banks have to control the operating expenses and strengthening the profit of the banks so that the efficiency of the banks in terms of higher profit may be increased.
- The banks should facilitate some more effective schemes to attract agriculture unit.
- As customer services occupies a pivotal place in the rural banks, the banks under study need to develop a greater attention than existing at present on the aspect of customer services and customer research. This opens the golden doors for the prosperous banks.
- To make more earnings from interest the Bank will continue to give emphasis on agriculture sector and in tune with the changing scenario and to improve the yield on advances, thrust will be given to diversify the lending without diluting the basic obligations of the bank in lending to weaker sections/rural sector.

To increase the profit, Banks should reduce their NPAs so that the profitability should be assessed at the fixed point.

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