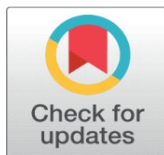


# BRANCH PRODUCTIVITY ANALYSIS OF KGB AND KVGB – A COMPARATIVE STUDY

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## ABSTRACT

Regional Rural Banks (RRBs) are hybrid financial institutions established to cater the financial needs of rural exodus. According to the preamble of the RRBs Act of 1976, the objectives were "to develop the rural economy by providing financial assistance for the purpose of development of agriculture, trade commerce, industry, and other productive activities in rural areas, particularly to small and marginal farmers, agricultural labourers, artisans, and small entrepreneurs, and for matter connected therewith and incidental thereto". Following India's financial sector reforms, several changes have occurred in the focus and operation of Regional Rural Banks, and numerous efforts have been taken by the government to strengthen the commercial sustainability of RRBs. The aim of the present study is to conduct a comprehensive branch productivity analysis of Regional Rural Banks (RRBs) operating within the state of Karnataka over a five-year period, spanning from 2018-19 to 2022-23. By examining the productivity metrics and performance indicators of RRB branches during this timeframe, the study seeks to gain insights into the efficiency, effectiveness, and contribution of these institutions to rural development and financial inclusion in Karnataka.

**Keywords:** Commercial Sustainability, Marginal Farmers and Rural Exodus

## 1. INTRODUCTION

India is primarily an agrarian and rural economy, with a large proportion of the people dependent on agriculture and living in rural areas. RRBs play an important role in rural and agricultural development by providing sufficient credit and financial facilities to benefit society's weakest sections, including small, marginal, and medium farmers, agricultural laborers, craftsmen, and small enterprises, among others. Regional Rural Banks (RRBs) serve as an alternative channel for providing institutional credit to rural and agricultural segments of the population. By extending financial facilities and services tailored to the specific needs of rural communities, RRBs play a crucial role in supporting the economic development process in these areas.

Through RRBs, small and marginal farmers, agricultural laborers, artisans, and small entrepreneurs gain access to essential financial resources that enable them to invest in agriculture, trade, commerce, and other productive activities. This access to credit helps rural communities to enhance productivity, increase incomes, and improve living standards. Moreover, RRBs contribute to the overall economic development of rural areas by fostering entrepreneurship, supporting local businesses, and facilitating the adoption of modern agricultural practices and technologies. By ensuring an appropriate supply of financial facilities and services, RRBs help to address the financial needs and challenges faced by rural households and communities, thereby promoting inclusive growth and reducing poverty.

In essence, RRBs play a vital role in empowering rural populations, promoting economic self-sufficiency, and contributing to the overall development and well-being of rural areas and their inhabitants.

The Banking Commission first proposed the establishment of RRBs in 1972, with a clear recommendation to establish "Rural Banks" in addition to commercial banks. Thus, the Regional Rural Banks were found in October 1975 under the

aegis of the then Prime Minister Late Mrs. Indira Gandhi to knockout the dreams and ambitions of Mahatma Gandhi on rural and agriculture development of India. Besides, the developing countries are prioritizing the rural and agriculture segments with a prominence to explore economic potentiality.

Banking institutions play critical roles in the growth of the economy, serving as a yardstick to assess rural and agricultural development by providing a variety of banking services and amenities such as credit extension. They also aid in the accumulation of savings and investments for the purpose of channelling funds to the needy sectors, and they play an important role in decreasing or eliminating regional imbalances and inequities through the provision of new financial products and services.

The productivity of RRB branches serves as a barometer of their efficiency and effectiveness in delivering financial services to rural populations. By analyzing key performance indicators such as loan disbursements, deposit mobilization, profitability, and customer outreach, insights can be gleaned into the operational dynamics and impact of RRBs at the grassroots level. Such analyses are essential for identifying best practices, addressing bottlenecks, and optimizing resource allocation to maximize the developmental impact of RRBs.

## 2. OBJECTIVE OF THE STUDY

- To evaluate the branch productivity performance of Karnataka Gramin Bank (KGB) and Karnataka Vikas Grameena Bank (KVGB).

## 3. RESEARCH METHODOLOGY

The present study is based on secondary data sourced journals, magazines, articles, and annual reports of Karnataka Gramin Bank (KGB) and Karnataka Vikas Grameena Bank (KVGB), the study focuses on analyzing the branch productivity performance of these two Regional Rural Banks (RRBs). Covering a span of five financial years from 2018-19 to 2022-23, the research aims to assess and compare the productivity levels of KGB and KVGB over this period.

By examining key performance indicators such as net profit per branch ratio, income per branch ratio, expenses per branch ratio, deposits per branch ratio, advances per branch ratio, and business per branch ratio, the study provides insights into the operational efficiency and effectiveness of the two RRBs. This analysis contributes to a better understanding of their respective contributions to rural development and financial inclusion in their service areas.

**TOOLS USED:** Average, Standard deviation, Coefficient of Variation and t-test are used for the analyzing the data.

## 4. STATEMENT OF HYPOTHESIS

HYPOTHESES
<ul style="list-style-type: none"> <li>➤ <b>Ho1:</b> There is no significant difference in Net Profit per Branch Ratio between KGB and KVGB during the study period.</li> <li>➤ <b>Ho2:</b> There is no significant difference in Income per Branch Ratio between KGB and KVGB during the study period.</li> <li>➤ <b>Ho3:</b> There is no significant difference in Expenses per Branch Ratio between KGB and KVGB during the study period.</li> <li>➤ <b>Ho4:</b> There is no significant difference in Deposits per Branch Ratio between KGB and KVGB during the study period.</li> <li>➤ <b>Ho5:</b> There is no significant difference in terms of Advances per Branch Ratio between KGB and KVGB during the study period.</li> <li>➤ <b>Ho6:</b> There is no significant difference in Business per Branch Ratio between KGB and KVGB during the study period.</li> </ul>

## 5. RESULTS AND DISCUSSIONS

Absolutely, productivity is indeed crucial for the growth and sustainability of banks in present competitive landscape. To remain relevant and successful, banks must continuously enhance their operational efficiency and effectiveness. This involves leveraging existing resources efficiently and adopting innovative strategies to manage their business operations more effectively. By following these strategies, banks can not only improve their profitability but also better serve their customers, which ultimately contribute to the overall economic growth and stability.

## 6. BRANCH PRODUCTIVITY

Branch productivity ratios are key metrics used to evaluate the efficiency and performance of bank branches, including those of Regional Rural Banks (RRBs). Here are some commonly used branch productivity ratios:

- 1) Net Profit per Branch = Net Profit after interest and tax / No of Bank Branches
- 2) Income per branch = Total income per branch / No of Bank Branches
- 3) Expenditure per branch = Total expenditure / No of Bank Branches
- 4) Deposit per branch = Total deposits / No of Bank Branches
- 5) Advances per branch = Total Advances / No of Bank Branches
- 6) Business per branch = Total business / No of Bank Branches

**Table-1 Branch Productivity of Karnataka Gramin Bank and Karnataka Vikas Grameena Bank**

Year	N/P per B		Inc per B		Exp per B		Dep per B		Adv per B		B per B	
	KGB	KVGB	KGB	KVGB	KGB	KVGB	KGB	KVGB	KGB	KVGB	KGB	KVGB
2018-19	9.59	7.88	276.03	237.74	254.52	229.86	2179.51	2184.72	1748.25	1721.84	3927.77	3906.57
2019-20	1.59	- 95.57	277.06	235.83	266.27	331.41	2436.62	2397.87	1761.62	1632.43	4198.25	4030.30
2020-21	1.23	1.03	306.72	252.71	242.95	251.67	2739.71	2559.57	1972.25	1775.36	4711.97	4422.57
2021-22	4.24	5.07	327.13	316.56	250.30	311.48	2840.74	2805.56	2023.60	2006.01	5110.60	4888.39
2022-23	0.67	6.40	332.20	303.72	260.15	297.32	3024.54	2974.63	2435.11	2295.76	5459.65	5270.39
Average	3.46	- 15.04	303.83	269.31	254.84	284.35	2644.22	2584.47	1988.17	1886.28	4681.65	4503.64
SD	3.69	45.09	26.67	38.11	8.96	42.30	335.94	314.78	278.46	267.30	630.91	575.12
t-value	0.914		1.659		-1.526		0.290		0.590		0.466	
p-value	0.387		0.135		0.165		0.779		0.571		0.653	
Decision	H <sub>01</sub> -Accepted		H <sub>02</sub> -Accepted		H <sub>03</sub> -Accepted		H <sub>04</sub> -Accepted		H <sub>05</sub> -Accepted		H <sub>06</sub> -Accepted	

Source: Computed from Annual Reports of KGB and KVGB

Table-1 shows the Branch Productivity Ratios of KGB and KVGB. The results of hypothesis testing are described as follows:

1. **NET PROFIT PER BRANCH RATIO:** The significance value (p-value) of 0.387 is higher than the chosen significance level of 0.05 (5%). Since the p-value is greater than the significance level, there is no significant difference between the two banks in terms of net profit per branch. Therefore, the null hypothesis, which likely states that there is no difference between the banks in terms of net profit per branch, is not rejected.
2. **INCOME PER BRANCH RATIO:** Here, the significance value is 0.135, which is less than the chosen significance level of 0.05. This indicates that there is a significant difference between the two banks in terms of income per branch. Therefore, the null hypothesis, which probably states that there is no difference between the banks in terms of income per branch, is rejected.
3. **EXPENSES PER BRANCH RATIO:** The significance value of 0.165 is higher than the significance level of 0.05. Thus, there is no significant difference between the two banks in terms of expenses per branch, and the null hypothesis, which likely states that there is no difference between the banks in terms of expenses per branch, is not rejected.
4. **DEPOSITS PER BRANCH RATIO:** With a significance value of 0.779, which is greater than the significance level of 0.05, there is no significant difference between the two banks in terms of deposits per branch. Therefore, the null hypothesis, which likely states that there is no difference between the banks in terms of deposits per branch, is not rejected.
5. **ADVANCES PER BRANCH RATIO:** Similar to deposits per branch, the significance value of 0.571 is higher than the significance level of 0.05. Thus, there is no significant difference between the two banks in terms of advances per branch, and the null hypothesis, which likely states that there is no difference between the banks in terms of advances per branch, is not rejected.
6. **BUSINESS PER BRANCH RATIO:** Finally, with a significance value of 0.653, which is higher than the significance level of 0.05, there is no significant difference between the two banks in terms of business per branch.

Therefore, the null hypothesis, which likely states that there is no difference between the banks in terms of business per branch, is not rejected.

## 7. FINDINGS

1. **NET PROFIT PER BRANCH RATIO:** KGB shows a higher average ratio compared to KVGB, indicating better efficiency in generating profits per branch. However, the hypothesis testing indicates no significant difference between the two banks in terms of net profit per branch ratio.
2. **INCOME PER BRANCH RATIO:** KGB maintains a higher average ratio of income per branch, suggesting greater efficiency in branch operations. Similar to net profit, the hypothesis testing shows no significant difference between the two banks in terms of income per branch ratio.
3. **EXPENSES PER BRANCH RATIO:** KGB demonstrates lower expenses per branch ratio compared to KVGB, indicating better efficiency in resource utilization. Again, the hypothesis testing confirms no significant difference between the banks in terms of expenses per branch ratio.
4. **DEPOSITS PER BRANCH RATIO:** KGB has a higher average ratio, suggesting better ability to collect deposits. However, hypothesis testing reveals no significant difference between the two banks in this regard.
5. **Advances per Branch Ratio:** KGB has a higher average ratio, indicating a greater ability to lend funds and generate income. Similar to the other metrics, hypothesis testing shows no significant difference between the banks in terms of advances per branch ratio.
6. **Business per Branch Ratio:** KGB maintains a higher average ratio of business per branch, indicating greater efficiency in generating business. Once more, hypothesis testing confirms no significant difference between the banks in terms of business per branch ratio.

## 8. ONCLUSION

Regional Rural Banks are playing a crucial role in the economic development of rural areas in order to remove the economic inequalities in the regions. Based on the research findings, discussions, and analysis, it's concluded that KGB demonstrates better consistency in branch productivity compared to KVGB. This suggests that KGB may have more effective strategies or operational practices in place to maintain productivity levels across its branches.

The suggestion provided to KVGB is to adopt innovative strategies aimed at improving the bank's performance and maintaining stability in branch productivity ratios. This recommendation acknowledges the need for KVGB to enhance its operations and possibly learn from the practices of KGB to achieve similar levels of consistency and productivity.

Overall, the study underscores the significance of branch productivity in the context of RRBs and offers insights into areas where improvements can be made to further contribute to the economic development of rural regions and reduce economic disparities.

## CONFLICT OF INTERESTS

None.

## ACKNOWLEDGMENTS

None.

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