# A STUDY ON MANAGERIAL EFFECTIVENESS AND BANK PERFORMANCE IN SCHEDULED URBAN COOPERATIVE BANKS IN INDIA

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***In Partial Fulfillment of the Requirements for the Degree of***

**DOCTOR OF PHILOSOPHY**

**by**

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## CANDIDATE'S DECLARATION

**I MOHAN KUMAR MISHRA** hereby certify that the work which is being presented in the thesis entitled **"A STUDY ON MANAGERIAL EFFECTIVENESS AND BANK PERFORMANCE IN SCHEDULED URBAN COOPERATIVE BANKS IN INDIA**" in partial fulfillment of the requirements for the award of the Degree of Doctor of Philosophy, submitted in the Department of UNIVERSITY SCHOOL OF MANAGEMENT AND ENTREPRENEURSHIP, Delhi Technological University is an authentic record of my own work carried out during the period from 2 AUGUST 2021 To 27 JULY 2024 under the supervision of **PROF AMIT MOOKERJEEE**

The matter presented in the thesis has not been submitted by me for the award of any other degree of this or any other Institute.

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# CERTIFICATE BY THE SUPERVISOR

Certified that **MOHAN KUMAR MISHRA** (enrollment no 2K21/PHDUIEV/04) has carried out his research work presented in this thesis entitled **"A STUDY ON MANAGERIAL EFFECTIVENESS AND BANK PERFORMANCE IN SCHEDULED URBAN COOPERATIVE BANKS IN INDIA"** for award of Doctor of Philosophy from the department of University School of Management and Entrepreneurship, Delhi Technological University, Delhi, under my supervision. The thesis embodies results of original work, and studies are carried out by the student himself and the contents of the thesis do not form the basis for the award of any other degree to the candidate or to anybody else from this or any other University/Institution.

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I am pleased to announce the successful submission of my PhD thesis titled **"Managerial Effectiveness and Bank Performance of Scheduled Urban Cooperative Banks in India"** at the University School of Management and Entrepreneurship, Delhi Technological University, Delhi.

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## *A Study on Managerial Effectiveness and Bank Performance in Scheduled Urban Cooperative Banks in India*

# ABSTRACT

Urban Cooperative Banks (UCBs) in India have long been integral to the financial fabric of the country, particularly in serving the needs of urban and semi-urban communities. However, they are facing significant challenges, including issues with deposit mobilization, credit dispensation, capital adequacy, profitability, and asset quality. These challenges are exacerbated by governance deficiencies such as poor accountability, weak internal controls, and inadequate information disclosure, which undermine transparency and decision-making. The sector's vulnerabilities are further heightened by external pressures, making it difficult for UCBs to maintain stability. Addressing these governance and management shortcomings is crucial for enhancing the performance and sustainability of UCBs, highlighting the urgent need for comprehensive reforms.

Existing literature on managerial effectiveness in the banking sector has consistently emphasized the importance of managerial skills, adherence to governance norms, and strategic management. These elements are recognized as fundamental to achieving organizational success in any banking institution. However, there is a noticeable gap in research specifically focused on Scheduled Urban Cooperative Banks (SUCBs), particularly in the context of empirically analyzing the impact of governance, professional management, and external control on bank performance from the perspective of stakeholders. This study seeks to fill this gap by providing a comprehensive examination of the critical factors influencing SUCB performance, with a particular focus on governance practices, managerial effectiveness, and external control mechanisms.

The relevance of this study is reiterated by the ongoing crises and challenges faced by UCBs, which pose significant risks to the stability and resilience of the cooperative credit movement in India. The study's focus on identifying and addressing governance deficiencies, enhancing regulatory oversight, and promoting professional management is closely aligned with current legislative and regulatory efforts aimed at strengthening the sector.

The study aims to provide a comprehensive understanding and analysis of the structure, performance, and achievements of the Urban Cooperative Banks (UCBs) sector in India. It seeks to critically examine the various issues and challenges that Scheduled UCBs face in achieving their performance objectives. A key focus of the study is to identify the primary determinants of managerial effectiveness within Scheduled Urban Cooperative Banks, exploring how these factors influence their overall performance. Furthermore, the study investigates the relationship between managerial effectiveness and the performance outcomes of these banks. Finally, it proposes suitable policy measures designed to enhance the performance and sustainability of Scheduled Urban Cooperative Banks, ensuring they can effectively navigate the challenges of the banking sector. By conducting a detailed analysis of these issues and offering practical, evidence-based solutions, the study also wishes to support initiatives aimed at restoring depositor confidence, improving operational efficiency, and ensuring the long-term viability of UCBs.

The methodology adopted for this study involves a blend of primary and secondary data sources, with a particular focus on Scheduled Urban Cooperative Banks (SUCBs) in India. The study's primary objective is to empirically examine and illustrate the relationships between key variables such as governance, professional management, external control, managerial effectiveness, and bank performance. The perspectives of bank office bearers and senior officials were sought to gain insights into the policy dimensions associated with these variables, leading to the refinement of the research universe to 50 SUCBs with the sample size of 300. Structured questionnaires were extensively employed to gather insights from the respondents of these selected banks.

The primary data collected through structured questionnaires was meticulously edited, coded, and classified to ensure accuracy and consistency. A master-table was developed, from which numerous sub-tables were created and placed in the relevant chapters for coherent analysis. Descriptive statistics were employed to analyze the perceptions of respondents, providing a clear and detailed understanding of the key components of effective governance, professional management, external control, managerial effectiveness, and performance in banking.

The study also utilized Structural Equation Modeling (SEM), a sophisticated statistical technique that combines factor analysis with multiple regression analysis. SEM was employed to analyze the complex relationships between the variables under investigation, including the direct, indirect, and total effects of governance, professional management, external control, managerial effectiveness, and performance. This approach allowed the study to explore and validate the inter-linkages between these variables, providing a comprehensive understanding of the factors that influence SUCB performance.

The findings of the study reveal several critical insights. Firstly, the study found that governance and professional management do not significantly influence managerial effectiveness within SUCBs. Inadequate governance practices can create inefficiencies that adversely affect managerial effectiveness, underscoring the need for proactive governance frameworks that prioritize professionalism and integrity. Secondly, while the relationship between professional management and managerial effectiveness is positive, it is not statistically significant. This finding highlights the lack of professional management standards within UCBs, pointing to the need for improved professional practices and skill development within these institutions.

On the other hand, the study found that external control mechanisms significantly enhance managerial effectiveness. Regulatory oversight plays a crucial role in ensuring efficient and effective management practices, which in turn contribute to improved financial performance within SUCBs. Compliance with regulatory standards is essential for the survival and success of these banks, reinforcing the importance of external control in enhancing managerial effectiveness. The study provides a comprehensive analysis of the factors influencing the performance of SUCBs in India. It reveals that while governance and professional management are important, they do not significantly influence managerial effectiveness. Furthermore, the study found that managerial effectiveness significantly impacts bank performance, particularly when supported by effective external control mechanisms. This finding highlights the critical role that strong management practices and adherence to regulatory standards play in achieving high performance levels within SUCBs.

Suggestions and managerial implications of the study highlights critical areas such as strengthening governance frameworks, promoting professional management, and ensuring stringent regulatory oversight are essential for improving operational efficiency and financial stability. The study emphasizes the importance of compliance, recommending the appointment of a Chief Compliance Officer (CCO) and the implementation of robust compliance programs. It also underscores the need for a comprehensive risk management framework, including the appointment of a Chief Risk Officer (CRO) and strong internal controls, backed by a vigorous internal audit function.

Enhancing transparency through improved disclosure practices and increasing board participation in governance processes are also critical recommendations. The study advocates for continuous improvement in governance practices, emphasizing regular training for board members and the adoption of innovative banking technologies to stay competitive. It also calls for a focus on cyber security and data protection, optimizing HR practices, and strengthening regulatory frameworks through collaboration and consultation with industry stakeholders. Overall, these recommendations aim to fortify the SUCBs against challenges, ensuring their long-term viability and trustworthiness in the financial ecosystem.

The study's recommendations focus on improving governance, enhancing professional management, and strengthening external control mechanisms to ensure the continued success and stability of SUCBs. The policy implications of this study are far-reaching, not only for strengthening SUCBs but also for their broader social impact. Effective governance and professional management practices will contribute to the financial stability of these institutions, protecting the interests of depositors, especially in economically vulnerable communities that rely heavily on UCBs. By promoting transparency, accountability, and innovation, SUCBs can better serve their communities, particularly in underserved urban and semi-urban areas. Enhanced financial reporting and the adoption of advanced technologies will lead to more efficient and accessible banking services, fostering financial inclusion and economic empowerment.

The social impact of these measures is significant; stronger SUCBs will not only contribute to the resilience of the financial sector but also to the economic development of the communities they serve. As these banks improve their operational integrity and expand their service offerings, they can play a pivotal role in supporting small businesses, providing affordable credit, and promoting financial literacy. This, in turn, will help bridge the gap between formal financial institutions and marginalized populations, leading to more equitable economic growth.

The study concludes by emphasizing the need for comprehensive reforms within the SUCBs, particularly in the areas of governance, professional management, and external control. The recent introduction of the Prompt Corrective Action (PCA) framework for UCBs by the Reserve Bank of India in July 2024 is highlighted as a particularly commendable step in this direction. This regulatory measure reflects a significant and timely advancement in oversight mechanisms, signaling a proactive approach to safeguarding financial stability within the sector. By implementing the recommendations of the study, SUCBs can achieve not only financial sustainability but also contribute positively to the society, ensuring that the cooperative banking model continues to be a pillar of support for inclusive economic development in India.

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| | |
|---|---|
| ACB | Audit Committee of the Board |
| AIFI | All Indian Financial Institution |
| ALM | Asset-Liability Management |
| BoD | Board of Directors |
| BoM | Board of Management |
| BR Act | Banking Regulation Act,1949 |
| CAMELS | Capital Adequacy, Asset Quality, Management, Earning, Liquidity and System and Controls |
| CBS | Core Banking Solutions |
| CCO | Chief Compliance Officer |
| C-D | Credit-Deposit/ Certificate of Deposit |
| CEO | Chief Executive Officer |
| CRAR | Capital to Risk Weighted Asset Ratio |
| CRR | Cash Reserve Ratio |
| CRCS | Central Registrar of Cooperative Societies |
| EPN | Entry Point Norm |
| FC | Financial Cooperative |
| GNPA | Gross Non-Performing Assets |
| HR | Human Resource |
| IRAC | Income Recognition and Asset Classification |
| IT | Information Technology |
| LAF | Liquidity Adjustment Facility |
| LCR | Liquidity Coverage Ratio |
| MIS | Management Information System |
| MMCB | Madhavpura Mercantile Cooperative Bank |
| MSF | Marginal Standing Facility |
| MSME | Micro, Small and Medium Enterprise |
| NAFCUB | National Federation of Urban Cooperative Banks and Credit Societies Ltd |
| NBFC | Non-Banking Finance Companies |
| NIM | Net Interest Margin |

| | |
|---|---|
| NNPA | Net Non-Performing Assets |
| NPA | Non-Performing Assets |
| NSUCB | Non Scheduled Urban Co-operative Bank |
| PCA | Prompt Corrective Action |
| PCR | Provisioning Coverage Ratio |
| PMCB | Punjab Maharashtra Co-operative Bank |
| RBI | Reserve Bank of India |
| RBIA | Risk Based Internal Audit |
| RCS | Registrar of Co-operative Societies |
| ROA | Return on Assets |
| ROE | Return on Equity |
| SAF | Supervisory Action Framework |
| SCB | Scheduled Commercial Banks |
| SFB | Small Finance Bank |
| SLR | Statutory Liquidity Ratio |
| SUCB | Scheduled Urban Co-operative Bank |
| UCB | Primary (Urban) Co-operative Bank |

# CHAPTER – 1

# INTRODUCTION, DEFINITIONS AND CONCEPTS

## 1. Introduction

The cooperative banking sector in India aims to address economic disparities and curb the concentration of income and wealth by empowering weaker sections of society. By fostering cooperation among members and promoting equitable distribution of resources, Urban Cooperative Banks (UCBs) strive to create a more just and prosperous society. This philosophy of cooperation not only drives economic development but also fosters social harmony and ethical wealth accumulation for all citizens.

## 2. Historical Context and Evolution

UCBs in India have a rich history dating back to the 19th century. They were inspired by the success of cooperative movements in Britain and the cooperative credit movement in Germany. Initially organized on a community basis, these urban cooperative credit societies aimed to meet the consumption-oriented credit needs of their members. Today, UCBs are primary cooperative banks operating in urban and semi-urban areas, functioning as cooperatives engaged in banking activities. Unlike other cooperatives, UCBs accept deposits from the public and lend to their members, mobilizing resources for lending and investment from a broader base rather than just their members.

### *2.1 The Beginnings*

The first known mutual aid society in India, the 'Anyonya Sahakari Mandali,' was established in 1889 in the princely state of Baroda under the guidance of Vithal Laxman, also known as Bhausaheb Kavthekar. Initially, urban cooperative credit societies were community-based, meeting the consumption-oriented credit needs of their members. Salary earners’ societies promoted thrift and self-help, significantly popularizing the movement among the middle class and organized labor. Historically, UCBs have focused on mobilizing savings from middle and low-income urban groups and providing credit to their members, often from weaker sections of society (Khanna & Kaushal, 2013).

The Cooperative Credit Societies Act of 1904 provided vital thrust to the movement. The first urban cooperative credit society was registered in Kanjipuram (Kanjivaram) in October 1904. The other important pioneering urban cooperative banking institutions included Pioneer Urban in Bombay (November 11, 1905), No.1 Military Accounts Mutual Help Cooperative Credit Society in Poona (January 9, 1906), Cosmos in Poona (January 18, 1906), Gokak Urban (February 15, 1906), Belgaum Pioneer (February 23, 1906), Kanakavli-Math Cooperative Credit Society, and Varavade Weavers' Urban Credit Society (March 13, 1906) in South Ratnagiri (now Sindhudurg). The most prominent early credit society was the Bombay Urban Cooperative Credit Society, established on January 23, 1906, by Vithaldas Thackersey and LallubhaiSamaldas (RBI).

The first Cooperative Credit Societies Act was enacted in the year 1904 which was further amended in 1912 for the purpose of incorporating non-credit cooperatives societies also. In the year 1915 The Maclagan Committee was constituted to review the performance of cooperative societies and provided solutions to strengthen these institutions. The committee also identified that these societies were also suited to satisfy the credit requirement of lower and middle segment of urban population and based on that the recommendations paved the way for formation of urban cooperative credit societies. During the banking crisis of 1913-14, when 57 joint stock banks collapsed, there was a notable shift of deposits from joint stock banks to cooperative urban banks, highlighting the perceived security and local character of cooperative institutions.

### *2.2 Definition and Development of Urban Co-operative Banks*

Urban co-operative banks (UCBs) in India evolved from urban credit societies, with the term 'bank' being loosely applied to various societies until around 1939. The Mehta-Bhansali Committee (1939) defined UCBs as urban credit societies with at least Rs 20,000 in paid-up share capital and accepting deposits withdrawable by cheque or draft. In Madras, any urban credit society meeting these criteria was termed an urban bank. The Co-operative Planning Committee (1946) added that such banks should maintain fluid resources, invest reserves in gilt-edged securities, and allocate a portion of profits to the reserve fund.

The Study Group on Credit Co-operatives (1963) recommended that co-operative credit societies in urban areas with a minimum paid-up share capital of Rs 50,000 could be termed UCBs. After the extension of certain provisions of the Banking Regulation Act 1949 to co-operative banks in 1966, an urban bank was defined as a primary co-operative bank, requiring a minimum paid-up share capital and reserves of Rs 1 lakh and restricting membership to individuals only.

Primary credit societies, with capital and reserves below Rs 1 lakh, are not under RBI control until they meet the Rs 1 lakh threshold. Studies suggest the definition of primary co-operative banks in the Reserve Bank of India Act 1934 and the Banking Regulation Act 1949 needs revision regarding minimum capital and reserves. The term 'urban co-operative bank' is used in this report for its common parlance (Report of the Committee on Urban Cooperative Banks (K.Madhava Das Committee Report), 1979).

The RBI defines Urban Co-operative Banks as "small-sized co-operatively organized banking units that operate in metropolitan, urban, and semi-urban centers, primarily catering to the needs of small borrowers such as owners of small-scale industrial units, retail traders, and professional and salaried classes" (Badhe)

### *2.3 State-Level Regulation and Further Growth*

The Government of India Act of 1919 transferred the subject of “Cooperation” to the Provincial Governments. The Government of Bombay passed the first State Cooperative Societies Act in 1925, which influenced other states and marked the beginning of the second phase in the history of Cooperative Credit Institutions. Various committees, including the Indian Central Banking Enquiry Committee (1931), the Mehta-Bhansali Committee (1939), and the Cooperative Planning Committee (1946), emphasized the importance of urban banks in supporting small businesses and middle-class people (Shivappa K. , 2018).

### *2.4 Governance Structure and Regulatory Framework - RBI's Role and Duality of Control*

The first study of Urban Cooperative Banks by RBI in 1958-59 acknowledged their widespread and financially sound framework. The Varde Committee in 1963 recommended the establishment of UCBs in urban centers with a population of 1 lakh or more and introduced the concept of minimum capital requirement. Concerns about the professionalism of UCBs led to their regulation under the Banking Regulation Act of 1949 in 1966, bringing large cooperative banks under RBI supervision while state governments managed other aspects. UCBs were also extended deposit insurance benefits in 1968 (Shah, 2016).

Registered under the Cooperative Societies Act, UCBs operate as financial institutions owned and managed by their members. They provide a wide range of banking services, including deposit accounts, loans, remittances, and various financial products, primarily serving the banking needs of small businesses, individuals, and communities in urban settings. By catering to the non-agricultural sector, particularly small borrowers, UCBs play a crucial role as financial intermediaries in urban and semi-urban areas. Cooperation is a State subject under the Indian Constitution, meaning all cooperative societies are governed by the Cooperative Societies Act of the respective State. The Registrar of Cooperative Societies (RCS) oversees registration, incorporation, management, and amalgamation of these societies. However, certain provisions of the Banking Regulation (BR) Act, 1949, apply to UCBs that accept public deposits.

Urban cooperative banks are registered and governed by their respective states' Cooperative Societies Acts and the Banking Regulation Act of 1949, subjecting them to dual regulatory control. Owned and managed by their members, these banks offer a wide array of banking services, including deposit accounts, loans, remittances, and other financial products. Elected boards of directors govern these banks, while the Reserve Bank of India (RBI) oversees their regulation and supervision, enforcing various prudential norms and guidelines to ensure their stability and soundness.

### *2.5 Expansion and Developments*

It is worth mentioning that the observations and recommendations made by the important committees recognized the importance role played by the urban cooperative banks in India. Important committees are, the Central Banking Enquiry Committee (1931), the Co-operative Planning Committee (1946), the Reserve Bank of India's survey of UCBs (1958-59), the Study Group on Credit Cooperatives in the Non-Agricultural Sector (1963), the Working Group on Industrial Financing through Cooperative Banks (1968), the Committee on Problems of Urban Cooperative Banks in Maharashtra (1976), the Committee on Urban Cooperative Banks, popularly known as the Madhav Das Committee (1978), the Marathe Committee (1992), and the Madhav Rao Committee (1999) (Shivappa, 2019).

The urban banking movement has been characterized by its heterogeneous nature and uneven geographical spread, with a concentration in states like Gujarat, Karnataka, Maharashtra, and Tamil Nadu. While most UCBs operate as unit banks, some large banks have expanded their presence across multiple states since multi-state banking was allowed in 1985. Some UCBs are also Authorized Dealers in Foreign Exchange.

Urban Cooperative Banks (UCBs), although not formally defined, refer to primary cooperative banks situated in urban and semi-urban areas. Traditionally, UCBs focused on communities, localities, and workplace groups, catering mainly to small borrowers and businesses. Over time, their scope of operations has expanded significantly. These banks are committed to addressing economic inequality and preventing the exploitation of weaker sections by more powerful entities. By serving small depositors and borrowers in the urban informal sector—often considered non-creditworthy by commercial banks—Indian UCBs perform a vital developmental role (Sudhakara Rao & Suryachandra Rao, 2017).

### *2.6 Extension of the Baking Regulation Act 1949 to Urban Co-operative Banks*

The significant development for urban co-operative banks (UCBs) in recent years has been the extension of certain provisions of the Banking Regulation Act 1949 to co-operative banks from March 1, 1966. Previously, UCBs were excluded from the

Banking Companies Act 1949, as they were registered under state Co-operative Societies Acts and not classified as companies. However, due to the substantial growth in co-operative banking operations, it became necessary to bring these institutions under Reserve Bank of India (RBI) control, especially with the introduction of the Deposit Insurance Scheme in 1962.

UCBs are brought under RBI supervision through Banking Regulation Act 1949 and paid-up share capital and reserves of Rs 1 lakh or more, termed as primary co-operative banks. The RBI's oversight included maintaining cash reserves, regulating loans and advances, opening new branches, and publishing audited financial statements. Existing and new UCBs were required to obtain a license from the RBI to conduct banking business. The RBI also gained statutory inspection powers, either directly or through state co-operative banks, while incorporation, management, and winding up remained governed by State Co-operative Societies Acts (Sudhakara Rao & Suryachandra Rao, 2017).

### *2.7 Early Reforms of Urban Co-operative Banks*

The urban co-operative banking sector, being an integral part of the financial system, has seen a series of reforms introduced by the Reserve Bank of India (RBI).

a) ***Narasimham Committee Recommendations (High Powered Committee):*** The Narasimham Committee recommended that the RBI review the entry norms for UCBs and set revised minimum capital requirements. To achieve an integrated supervision system over the financial sector, the Committee suggested bringing UCBs under the Board of Financial Supervision. In response, the RBI established a High-Powered Committee on Urban Co-operative Banks under the Chairmanship of Shri K. Madhava Rao, former Chief Secretary to the Government of Andhra Pradesh, to review UCB performance and recommend strengthening measures. The committee recommended expanding UCB activities, supporting small and cottage industries, improving professional standards, and aligning UCBs with commercial banks (Shah, 2016).

b) ***Licensing Policy:*** In the new liberalized era, the licensing policy for new UCBs is expected to be transparent, precise, and objective, based on established standards and procedures. The procedures for these licensing norms should be simple and minimal.

c) ***Dual Control:*** One problem in supervising UCBs is the dual control by the State Government and the RBI. While the RBI handles banking operations such as branch licensing, area expansion, interest rates, audits, and investments, State Governments manage registration, management, administration, and recruitment under respective State Co-operative Societies Acts. The Narasimham Committee (1998) recommended eliminating this duality of control, placing the regulation of UCBs solely under the Board for Financial Supervision. This would require amendments to the Multi-State Co-operative Societies Act, 1984, State Co-operative Societies Act, and the Banking Regulation Act.

d) ***Corporate Governance*:** Good corporate governance is essential for any financial entity. The Madhava Rao Committee suggested that at least two directors with suitable professional qualifications and experience should be on the Boards of UCBs. Additionally, promoters should not be defaulters to any financial institutions or banks and should not be associated with chit funds, NBFCs, or cooperative banks as directors. These recommendations need thorough examination before policy implementation.

e) ***Capital Adequacy:*** The Narasimham Committee (1998) brought into the problem of extending capital adequacy requirements to cooperative banks, recommending that they achieve a minimum 8% CRAR within five years. The Madhava Rao Committee also supported extending CRAR discipline to UCBs. However, UCBs face challenges in raising additional capital due to restrictions on public capital issuance and limits imposed by various acts on individual shareholdings.

f) ***Legislative Reforms:*** The Narasimham Committee emphasized the need for a legal framework defining the rights and liabilities of contract parties and providing speedy dispute resolution, crucial for financial intermediation. The expert group headed by T.R.Andhyarujina recommended new laws granting statutory powers to banks for possession and sale of loan securities, enabling securitization of receivables, and strengthening recovery mechanisms.

g) ***Unlicensed and Weak Banks:*** The presence of many unlicensed banks is a significant concern. Mild screening processes in the past have led to their proliferation. It is advisable that these banks should have been met the criteria such as minimum prescribed Capital to Risk-weighted Assets Ratio, Net Non-Performing Assets ratio not exceeding 10%, continuous profitability for the last three years, and compliance with RBI regulatory directions for licensing. UCBs must also improve their statistical reporting system to ensure timely submission of returns, which is crucial for effective supervision and timely policy action.

### *2.8 Recent Regulatory Developments*

***a. Governance and Risk Management Reforms for UCBs: Key RBI Guidelines:***

The Reserve Bank of India (RBI) has taken significant steps to strengthen governance practices in Urban Cooperative Banks (UCBs) following financial and governance distress in the sector. To enhance quality, the RBI directed UCB directors to focus on three key pillars: quarterly risk compliance, risk management, and internal audit reports to the board. Emphasis was placed on proactive Asset Liability Management, liquidity risk management, and board effectiveness. This includes ensuring elected directors possess necessary skill sets, promoting diversity, and fostering transparent discussions. The RBI also cautioned against misleading accounting practices and encouraged UCBs to adopt suitable business strategies and technology solutions to sustain growth while serving customers effectively (Vidya Pitre, 2003).

*b.* ***Revision of Supervisory Action Framework (SAF):*** Under the provisions of the Banking Regulation Act, 1949, the Reserve Bank of India (RBI) is entitled to assess the financial position of a bank and issue necessary directions or instructions. The Supervisory Action Framework (SAF), first introduced in 2014, was designed to better manage stressed urban cooperative banks (UCBs). The SAF is like the Prompt Corrective Action framework imposed on Scheduled Commercial Banks. Further the revision of guidelines of the SAF in 2020 includes specific threshold limits for asset quality (NNPA and GNPA), profitability, and capital adequacy (CRAR). The SAF envisages self-corrective actions by the management of UCBs at the initial stage of financial deterioration. If a UCB's financial position does not improve, the RBI will step in with supervisory actions similar to the Prompt Corrective Action (PCA) framework imposed on scheduled commercial banks. Possible actions by the RBI include requiring UCBs to submit a board-approved action plan to address issues such as reducing net NPAs below 6%, restoring profitability, and eliminating accumulated losses. UCBs are also expected to increase their capital adequacy ratio (CAR) to 9% or above within 12 months.

Additionally, the RBI might instruct the UCB's board to review progress on the action plan quarterly or monthly and submit post-review progress reports to the RBI. If the CAR falls below 9%, the RBI may seek a board-approved proposal for merging the UCB with another bank or converting it into a credit society. The RBI can also impose restrictions on the declaration or payment of dividends or donations without prior approval if any risk thresholds are breached. Furthermore, restrictions may be placed on the issuance of new loans and advances with risk weights exceeding 100%, incurring capital expenditure beyond a specified limit, and expanding.

*c.* ***Expert Committee on Primary (Urban) Cooperative Banks:*** In 2020, the Reserve Bank of India (RBI) brought all Urban Cooperative Banks (UCBs) and multi-state cooperatives under its supervision, marking a significant step in enhancing the regulatory framework for these institutions. In 2021, the RBI released Expert Committee on Primary (Urban) Cooperative Banks under the Chairmanship of Shri.N.S.Vishwanathan to review the structure of UCBs.

This committee, in its report, proposed a four-tier categorization to better organize and regulate these banks based on their deposit sizes. This tiered structure aims to streamline the regulatory approach, ensuring that UCBs are supervised and managed according to their size and operational complexity.

*d.* ***Other Initiatives:*** The RBI's actions highlight its dedication to upholding stringent regulatory standards in the banking sector and ensuring adherence to prescribed norms to protect depositor interests. It has recently taken several supervisory initiatives to address the increasing complexities and interconnectedness within the financial system and to effectively manage potential systemic risks. These efforts reflect a shift towards a more comprehensive approach in supervision. The Reserve Bank has significantly strengthened its supervisory framework by transitioning from an entity-based to a thematic and activity-based approach, allowing for a broader and more nuanced understanding of the financial landscape. Structural improvements have enhanced the agility, flexibility, and specialization of supervisory mechanisms, enabling the Reserve Bank to respond more effectively to emerging risks and challenges. Additionally, a unified and harmonized supervisory strategy has been adopted across commercial banks, NBFCs, and UCBs, focusing on identifying and addressing the root causes of vulnerabilities to foster a more resilient financial system.

*e.* ***RBI's Proposed Supervision of Urban Cooperative Banks (UCBs)*** The Reserve Bank of India's recent introduction of a revised supervisory framework, known as the Prompt Corrective Action (PCA) Framework for Primary (Urban) Co-operative Banks (UCBs), represents a significant policy shift aimed at enhancing the financial health and stability of UCBs. This new framework, set to be implemented from April 1, 2025, replaces the existing Supervisory Action Framework (SAF) and targets the most critical aspects of UCBs' operations, namely capital, asset quality, and profitability. The PCA Framework is a strategic move designed to safeguard the interests of depositors while restoring the financial health of weak UCBs, particularly those with deposits exceeding ₹ 100 crores, classified as the upper-tier category. The framework's implementation focuses on three key parameters:

capital adequacy, asset quality, and profitability. UCBs that demonstrate financial unsoundness, or poor management can be placed under PCA if they breach the established risk thresholds related to these parameters. Currently, there are approximately 1,500 UCBs in India, which are categorized into four tiers based on deposit size: Tier-1 (up to Rs. 100 crore), Tier-2 (Rs.100 crores to Rs.1,000 crore), Tier-3 ( Rs.1,000 crores to Rs.10,000 crore), and Tier-4 (above Rs.10,000 crore). The PCA Framework specifically targets UCBs in Tiers 2 to 4, which fall under the upper tier.

The objective of the PCA Framework is to facilitate timely supervisory intervention, compelling UCBs to implement remedial measures to restore their financial stability. The framework outlines three risk thresholds for capital adequacy ratio (CRAR) breaches, with progressively stricter requirements for UCBs falling below the regulatory minimum by up to 250 basis points (bps), between 250 and 400 bps, and more than 400 bps. Similarly, three risk thresholds are prescribed for Net Non-Performing Assets (NNPAs): 6% to 9%, 9% to 12%, and 12% or more.

Profitability is another critical parameter, with a single threshold set for UCBs that incur losses over two consecutive years. This criterion mirrors the parameter used in the previous SAF. Based on the risk threshold under which a UCB is categorized, a range of corrective actions may be mandated. These include raising capital, restricting dividend payments, curtailing capital expenditures (except for technological upgrades), limiting branch expansion, and restricting the growth of deposits. The Central Bank may also require UCBs to activate an action plan approved by it, review their business model for sustainability, and assess the long-term viability of their business lines and activities. In cases where these steps do not yield the desired outcomes, UCBs may be required to explore merger options or consider converting into a credit society (Saravanan, Padmavathy, & Valiachi, 2024), (Business Line, 2024), (The Economic Times, 2024), (Abhijit, 2024).

## 3. Structure of UCBs

Urban Cooperative Banks are categorized into scheduled and non-scheduled categories based on their inclusion in the Second Schedule of the RBI Act, 1934, and their State-wise presence (single-state or multi-state). The liberal licensing policy of the 1990s led to a surge in the number of UCBs, with nearly a third of the newly licensed banks eventually becoming financially unsound. Beginning in 2004-05, the Reserve Bank of India initiated a consolidation process that involved merging unviable UCBs with viable ones, canceling licenses of non-viable entities, and suspending new license issuances (Ramrao Rautrao, Rajndra, & Vidya, 2020).

Since 2004-05, the UCB sector has experienced a total of 150 mergers, including 3 mergers in the 2022-23 fiscal years. Maharashtra and Gujarat have been the primary contributors, accounting for 80% of these mergers. Additionally, license cancellations have been significant, with 46 cancellations occurring since 2015-16. Most of these mergers and cancellations have affected non-scheduled UCBs. Consequently, based on the RBI Report on Trends and Progress of Banking in India – 2022-23, the number of UCBs declined steadily from 1,926 in March 2004 to 1,502 by March 2023. While updating the latest date with the National Federation of Urban Cooperative Banks (NAFCUB) which is the Apex body of the urban banking system in India, indicates the total number of UCBs as 1434 as provided in the Table - 1.2.

***3.1 Categorization of UCBs***

In the 2022-23 fiscal year, the Reserve Bank of India introduced a four-tiered regulatory framework for Urban Cooperative Banks (UCBs), following the recommendations of the Expert Committee on Urban Co-operative Banks, chaired by Shri N. S. Vishwanathan (August 2021). Under this framework, UCBs are categorized as follows: Tier 1 for those with deposits up to Rs.100 crores; Tier 2 for those with deposits between Rs.100 crores and Rs. 1,000crores; Tier 3 for those with deposits between Rs. 1,000 crores and Rs. 10,000 crores; and Tier 4 for those with deposits exceeding Rs. 10,000 crores. As of March 2023, the majority of UCBs were classified under Tier 1.

Tier-wise classification of UCBs as at the end of 31st March 2023 is provided in the following table:

**Table – 1.1**

**Tier-wise Classification of UCBs**

| Tier Type | Number of Banks | |
|---|---|---|
| | **Number** | **Percentage** |
| I | 898 | 59.80 |
| II | 520 | 34.60 |
| III | 78 | 5.20 |
| IV | 6 | 0.40 |
| All UCBs | 1502 | 100.00 |

(Source: Report on Trend and Progress of Banking in India 2022-23)

### *3.2 Scheduled and Non-Scheduled UCBs*

A 'Scheduled Urban Cooperative Bank (SUCB)' is included in the second schedule of the RBI Act. These banks have certain rights and obligations under the RBI Act, 1934 (2nd Schedule), including the right to obtain refinance and loans from the RBI and obligations such as maintaining cash reserves and submitting returns to the RBI. As of March 31, 2023, there are 1,502 UCBs, comprising 51 scheduled UCBs and 1,451 non-scheduled UCBs.

### *3.3 Classification Based on Geographical Jurisdiction*

Urban Cooperative Banks (UCBs) in India can be classified based on their geographical jurisdiction and the regulatory framework under which they operate. Those UCBs registered under a State Cooperative Act function exclusively within the boundaries of that state. Conversely, UCBs registered under the Multi-State Cooperative Societies Act have the authority to operate across multiple states and knows as multi-state UCBs.

The classification and number of such banks are detailed in the Table – 1.2. below:

**Table – 1.2**

**Types of UCBs**

| **Geographical Status** | **Scheduled** | **Non-Scheduled** |
|---|---|---|
| Functioning in One State | 17 | 1404 |
| Multi-State | 32 | 30 |
| Total | 49 | 1434 |
| **Total Number of UCBs** | | **1483** |

(Source: NAFCUB)

## 4. Role and Significance of Urban Cooperative Banks (UCBs) in Financial Inclusion

### *4.1* Role:

Urban Cooperative Banks (UCBs) are localized financial institutions with a legacy spanning over a century. They primarily serve the lower middle class, individuals with limited resources, self-employed individuals, and micro-enterprises. UCBs play a crucial role in mobilizing deposits and providing financing to the small-borrower sector, which includes small-scale industries, professionals, retailers, and similar entities (Mishra &Mookerjee, 2024). These banks predominantly cater to small borrowers and businesses within specific communities, neighborhoods, and workplace groups. Their financing activities focus on entrepreneurs, small businesses, industries, self-employment in urban areas, as well as home purchases and educational loans. UCBs are regulated under the Cooperative Societies Acts of their respective states and the Banking Regulation Act of 1949, subjecting them to dual regulatory oversight (Agarwal). A 'Scheduled Urban Cooperative Bank' refers to those listed in the second schedule of the Banking Regulation Act, 1949. Such banks benefit from specific rights under the RBI Act, 1934 (2nd Schedule), including the ability to obtain refinance and loans from the Reserve Bank of India (RBI). They are also required to fulfill obligations such as maintaining cash reserves and submitting regular returns to the RBI (Business Standard, 2024).

UCBs primarily cater to the credit needs of individuals with limited means. These banks operate on cooperative principles and are localized financial service providers with over a century of operational history. Their primary focus is on serving the lower middle class, individuals with limited resources, and self-employed micro-enterprises. These banks play a crucial role in mobilizing deposits and financing the small-borrower sector, including small-scale industries, professionals, and retailers. They primarily lend to small borrowers and businesses rooted in communities, neighborhoods, and workplace groups, supporting entrepreneurs, small businesses, industries, and self-employment in urban areas loans (Sunil Kumar, 2024). Additionally, they provide financing for home purchases and educational loans. Several committees have recognized the crucial role Urban Cooperative Banks (UCBs) play in providing last-mile credit, particularly to individuals not fully integrated into the mainstream banking system. UCBs predominantly serve wage earners, small entrepreneurs, and businesses in urban and semi-urban regions, often demonstrating greater responsiveness to local needs compared to formal banking institutions.

### *4.2 Unique Character*

The uniqueness of UCBs lies in their democratic governance structure and localized focus. Unlike commercial banks governed by a board of directors appointed by shareholders, UCBs are driven by their members, each having equal voting rights. Decisions are made collectively through a general body or elected representatives, ensuring that the interests of all members are considered. Moreover, the dual regulatory framework under which UCBs operate—overseen by both the Reserve Bank of India (RBI) and the Registrar of Cooperative Societies (RCS)—ensures that they adhere to stringent governance and compliance standards, further enhancing their reliability and trustworthiness.

Furthermore, UCBs tailor their services to meet the specific needs of their members, providing personalized banking solutions that larger commercial banks may overlook (Sakshi, 2023). Another distinctive feature of UCBs is their profit distribution model. Instead of distributing profits to external shareholders, UCBs allocate their surplus to dividends, reserve funds, community ploughing-back of profits, or lower interest rates on loans to members. This approach fosters a sense of community and mutual benefit among members.

### *4.3 Significance as Niche Player in Urban Financial Inclusion*

UCBs are significant players in financial inclusion, especially in urban areas where they bridge the gap between the formal banking sector and the financially underserved. By offering affordable banking services, UCBs enable members to access credit, savings, and other financial products that they might not obtain from commercial banks. This access to financial services helps improve the economic conditions of members, leading to broader community development. Additionally, UCBs contribute to financial stability and resilience by promoting savings among their members and ensuring that credit is available to those who need it most. Their localized operations and intimate knowledge of the community allow UCBs to make more informed lending decisions, reducing the risk of non-performing assets (Nayak, 2012).

## 5. Performance of UCBs in India – A Snapshot

This section provides a preliminary analysis of UCBs based on important financial indicators and performance metrics.

***5.1 Deposits:*** In 2021-22, Urban Cooperative Banks faced a contraction in deposit growth. However, there was a notable reversal of this trend in 2022-23, with deposit growth, particularly in the Scheduled Urban Cooperative Banks (SUCBs), rebounding. This rebound continued into the first quarter of 2023-24, albeit at a slower pace compared to Scheduled Commercial Banks (SCBs), with a 1.8 per cent growth in deposits for UCBs. Despite the improvement, the growth rate remained lower than that of Scheduled Commercial Banks. The prolonged period of low deposit growth has had a significant impact on the funding structure of UCBs. Over the years, there has been a decline in the share of deposits in their total liabilities, falling from 82 per cent at the end of March 2017 to 78.4 per cent by the end of March 2023. This indicates a shift in the funding mix of UCBs, potentially leading to a greater reliance on alternative sources of funding or a need to diversify funding channels to maintain liquidity and support lending activities.

***5.2 Loans and Advances:*** The growth of advances in Urban Cooperative Banks (UCBs) reached its highest level in four years during 2022-23, indicating a notable uptick in lending activities within this sector. This positive trend continued into the first quarter of 2023-24, with advances accelerating further to 5.9 per cent. However, despite this growth, the pace of advance growth in UCBs remained lower than that of Scheduled Commercial Banks (SCBs) during the same period. The sustained deceleration in advance growth observed in Scheduled Urban Cooperative Banks (SUCBs) over more than a decade could be attributed to various financial constraints. Factors such as elevated Non-Performing Asset (NPA) ratios and low profitability may have contributed to this trend. These constraints potentially limit the capacity of SUCBs to extend loans and advance credit, impacting their overall lending activities and growth prospects. Addressing these financial challenges is crucial for SUCBs to enhance their lending capacity, support economic growth, and ensure financial stability within the cooperative banking sector.

***5.3 MSME Lending:*** Urban Cooperative Banks (UCBs) saw an increase in priority sector lending during 2022-23, with a focus on credit to Micro, Small, and Medium Enterprises (MSMEs), particularly micro enterprises, which constituted 41% of their total lending. This increase allowed UCBs to meet the targets set for lending to micro enterprises and weaker sections by end-March 2023. However, housing loans, which accounted for close to 10% of UCBs' total lending, contracted during the year despite higher lending limits for housing. Overall, UCBs achieved their priority sector lending target for end-March 2025 by reaching 67% by the end of March 2023.

***5.4 CD Ratio***: The Credit-Deposit (C-D) ratio of Urban Cooperative Banks (UCBs) experienced a notable increase for the third consecutive year in 2022-23, indicating a rising trend in lending activities relative to deposit mobilization within this sector. Despite this upward trajectory, the C-D ratio of UCBs remained below that of Scheduled Commercial Banks (SCBs), highlighting a disparity in the utilization of deposits for lending purposes between the two types of banking institutions. Moreover, the gap between the C-D ratios of UCBs and SCBs has been widening over time, suggesting a growing difference in the extent to which these banks are leveraging their deposit base to extend credit to borrowers. This widening wedge underscores the evolving dynamics in the banking landscape and may reflect differences in risk appetite, lending strategies, and regulatory environments between UCBs and SCBs.

***5.5 Asset Quality:*** In 2022-23, Urban Cooperative Banks (UCBs) saw further improvement in asset quality, with lower slippages and stronger loan recovery contributing to a decline in the Gross Non-Performing Asset (GNPA) ratio from its peak in 2020-21, despite a slight uptick in Q1:2023-24. Although Non-Scheduled UCBs (NSUCBs) generally have higher GNPA ratios, they showed significant improvement during the period. This improvement led to a rise in their provision coverage ratio (PCR), particularly with the harmonization of provisioning norms for standard advances effective April 2023, expected to further increase their PCR. Large borrowal accounts, which constitute a significant portion of UCBs' lending, also accounted for a substantial share of their total GNPAs. While there is a large disparity in exposure to these accounts among UCBs, with Scheduled UCBs (SUCBs) having a higher concentration compared to NSUCBs, there was an overall reduction in GNPA from such accounts across the sector. Additionally, while there was a slight uptick in Special Mention Account (SMA)-0 and SMA-1 ratios during the year, the SMA-2 ratio declined, indicating a mixed trend in asset quality indicators.

***5.6 Profitability:*** Urban Cooperative Banks (UCBs) saw net profit growth for the third consecutive year in 2022-23, driven by rising interest income from loans and advances and declining interest expenses, despite reduced non-interest income. Key profitability indicators, including return on assets (ROA), return on equity (ROE), and net interest margin (NIM), improved, reflecting enhanced operational efficiency and financial resilience amidst economic challenges.

**5.7** ***CRAR:*** The regulatory landscape for Urban Cooperative Banks (UCBs) underwent significant changes with the introduction of a revised framework in July 2022, aimed at bolstering financial stability. This revision raised the minimum regulatory capital requirements for Tier 2 to Tier 4 UCBs to 12 percent, while Tier 1 UCBs maintained a 9 percent requirement. By the end of March 2023, data revealed that 40 percent of UCBs fell within the upper tiers (Tiers 2 to 4), indicating a diverse spectrum of institutions subject to the heightened capital standards. Remarkably, 88 percent of UCBs maintained Capital to Risk-Weighted Assets Ratio (CRAR) levels above the mandated 12 percent threshold, suggesting widespread compliance with the revised regulations. Furthermore, the analysis of CRAR distribution within Scheduled Urban Cooperative Banks (SUCBs) demonstrated an overall improvement during the fiscal year 2022-23. Despite this positive trend, two SUCBs recorded negative CRARs at the end of March 2023, signaling potential vulnerabilities within a subset of institutions. This underscores the importance of continued regulatory vigilance and proactive measures to address capital shortfalls and strengthen the financial resilience of UCBs. Overall, while the majority of UCBs have adhered to the enhanced capital requirements, the presence of negative CRARs in some SUCBs underscores the ongoing challenges and underscores the necessity for sustained regulatory oversight and risk management efforts within the sector.

The analysis emphasizes the growth, stability, and achievements of Urban Cooperative Banks (UCBs) in India. Despite challenges, UCBs have demonstrated resilience and efficiency, playing a key role in promoting financial inclusion and economic progress. To sustain growth and strengthen their position in the Indian banking sector, UCBs must continue focusing on asset quality, operational efficiency, and effective risk management. (The analysis was made through *data compiled from the RBI Report on Trends and Progress of Banking in India 2022-23*).

## 6. Critical Issues and Challenges of Urban Cooperative Banks (UCBs)

UCBs may be closer to their community but they have been troubled with various issues in recent years. Some of the inherent issues faced by the UCBs due to their cooperative banking structure are high assets risks since a majority of UCBs in India are singly branch banks and restriction on issue of fresh equity to raise growth capital (Rajauria, 2022). The major issues and challenges faced by the sector is highlighted below:

- *Current Landscape:* Shifts in the banking ecosystem - Competition from Small Finance Banks (SFBs) and Fin-Tech firms - Technological advancements in commercial banks - UCBs' operational continuity despite challenges.

- *Governance Issues:* Community-oriented nature leading to inadequate management - Ethical concerns and conflicts of interest - Dual control by State Governments and regulatory bodies - Instances of failures and financial distress in SUCBs; issues like board effectiveness, accountability, transparency, conflict of interest, and regulatory oversight.

- *Operational Efficiency:* Lack of streamlined processes and advanced technology - Shortage of skilled manpower - Risks of insufficient diversification in smaller UCBs.

- *Financial Vulnerabilities:* Insufficient capitalization and high NPAs - Limited reserves - Struggles with compliance and risk management.

- *Compliance, Risk Management, and Internal Audit:* Ineffective risk management practices - Emphasis on credit and liquidity control - Tackling weak capital bases and inadequate credit management.

- *Regulatory Oversight:* Necessity of strong regulatory frameworks - Preserving stakeholder trust and confidence - Supporting inclusive economic growth and financial stability.

- *Funding Challenges:* Complex capital-raising procedures - Few incentives to draw investment - Pressure on solvency and liquidity from expansion strategies.

- *Technology Adoption:* Insufficient technology affecting efficiency - Impact on customer experience - Need for modernization to stay competitive.

- *Threats from New Players:* Impact of cutting-edge technology and financial resources on UCBs - Potential disruption of UCBs' traditional customer base - Strategies for UCBs to maintain their niche market segment.

- *Managerial Challenges:* Lack of -professional management practices - Issues of fund diversion - Financial constraints and operational limitations.

In conclusion, Urban Cooperative Banks are integral to the financial inclusion landscape in urban and semi-urban areas. Their member-driven governance, localized focus, and commitment to community development distinguish them from commercial banks. By providing tailored and affordable financial services, UCBs promote economic empowerment and social well-being, making them essential players in the drive towards inclusive growth and financial stability. By focusing on individual and small-scale borrowers, UCBs facilitate access to financial services for everyone, fostering local economic growth and promoting financial inclusion. UCBs continue to play a vital role in India's financial ecosystem by addressing the credit needs of marginalized sections, promoting financial inclusion, and supporting small-scale economic activities in urban and semi-urban areas. Despite facing challenges from new financial entities, their cooperative principles and member-centric approach remain central to their operations and impact.

# CHAPTER – 2

# REVIEW OF LITERATURE AND FORMULATION OF HYPOTHESES

## 1. Governance in Urban Cooperative Banks

In a 2014 study conducted by Bhagabata Behera (2014), an exploration was undertaken to examine the application of corporate governance within urban cooperative banks in India. The research underscored various challenges that must be confronted in the pursuit of effective corporate governance. These challenges encompassed matters such as the incorporation of non-executive directors into the board's composition, the adoption of robust disclosure practices to enhance transparency, the establishment of a comprehensive code of conduct, the formation of distinct committees for various functions, the participation from stakeholders.

In the realm of corporate governance, the degree of an organization's effectiveness becomes a pivotal measure of its overall success. A state of commendable corporate governance is achieved when leadership and management operate with a pronounced commitment to transparency and accountability, guided by the best interests of the shareholders rather than self-serving motives. Conversely, when an organization falters in its commitment to transparency, it descends into the dominion of poor corporate governance. The PMC case vividly illustrates the perilous consequences that may befall an organization when plagued by subpar corporate governance practices. Within the PMC band's unfortunate narrative, a litany of deficiencies emerged, encompassing financial irregularities, systemic failures in internal control and management, and the falsification of financial statements. These multifaceted issues ultimately donated the organization's downfall (Mukherjee 2023).

In the recent co-operative banks scandals, the financial sector and its associated markets once again found themselves spellbound in the consequences of regulatory oversights. These outrages within the co-operative sector underscores the pressing need for a more expeditious and well-coordinated framework for addressing financial improprieties. It further highlights the imperative of establishing an efficient governance structure and settlement system to enhance the functionality of financial institutions. This crisis reverberated across numerous banks in the region, eroding public trust and confidence. Cooperative governance, as a pivotal aspect, encompasses a framework of rules, tools, and procedural mechanisms employed for the management of cooperatives. Such governance structures must align with the core values, principles, and mission of credit cooperatives, facilitating the accurate realization of their objectives (Sapovadia, 2008).

The study emphasizes the imperative necessity for Urban Cooperative Banks (UCBs) to uphold their relevance and sustain a pivotal developmental role within the context of India. To achieve this, it is incumbent upon UCBs to adopt governance and regulatory frameworks of a standard commensurate with those observed within mainstream commercial banks. Additionally, a commitment to professionalism and modernization is paramount. It is of the essence that the governance and regulatory mechanisms be aligned with the evolving economic landscape of India, both in the present and the future. This evolution also calls for the contemporizing of pertinent laws. Hence, an essential paradigm shift in the role and function of UCBs is warranted to ensure their effective contribution to India's development (Asher, 2007).

Effective governance, professional management, and robust internal control systems are essential components aimed at ensuring efficiency and integrity in the operations of Urban Cooperative Banks (UCBs). Enhanced governance quality is expected to have a favorable impact on UCBs' financial performance. An integral aspect of governance is the board's responsibility to oversee the bank's financial performance by regularly requesting comprehensive reports from senior management. Moreover, the cooperative nature of these banks and the caliber of their professional management were identified as increasingly influential factors in governance quality beyond a certain threshold. Notably, attributes such as the educational qualifications of CEOs, director qualifications, and staff training emerged as significant factors differentiating the quality of governance (Srivastava & Ajit Kumar, 2021).

In the setting of cooperative governance, a fundamental pillar of achieving good governance lies in the honest application of existing laws, as elucidated by Chaudhry & Malik.S (2009). A crucial facet of cooperative governance highlighted by

Wakaisuka-Isingoma,J., et.al (2016) canters on the vigilant monitoring and control of managerial actions. This oversight mechanism plays a pivotal role in shaping the course of cooperatives and underpins their capacity for responsible and effective management.

The symbiotic relationship between good governance and the performance of community organizations has been a subject of scholarly inquiry. Dayanandhan.R, (2014) and Lakshmi & Manoj P.K., (2015) both expound upon the positive correlation between good governance and enhanced performance. This synergy, however, is contingent on several critical governance practices, including participation, accountability, transparency, and engagement in general assembly meetings, as highlighted by Karthikeyan (2008).

Nonetheless, a myopic focus on mere compliance with laws and obligations in cooperative governance can have substantial implications for the overall business performance and competitiveness of these entities, as noted by Ambastha.A&Momaya, K. S. (2004). It is clear that to attain and maintain a competitive edge, cooperative governance must transcend the realm of mere legal adherence.

Expanding the discourse to corporate governance, the elevation of this aspect brings forth a myriad of benefits. According to Scholl, M. & Sherwood, A. (2014), there are four foundational pillars to success in corporate governance. These include the design, control, and allocation of resources, the establishment of regularity in processes, and the effective administration of an organization. When executed harmoniously, these pillars engender better management, heightened credibility, increased investor interest, and the realization of the underlying value of the corporation.

Momaya, K. S. (2014) further defines competitiveness as a transformative process that converts competitive assets and processes into tangible performance outcomes. In this light, the significance of robust corporate governance becomes even more evident, as it serves as the bedrock upon which competitiveness is built and sustained. Literature reveals a comprehensive array of factors influencing whistle-blowing policies and practices within organizational frameworks. Kalyanasundram (2018) highlights the impact of various board-related factors such as board size, board independence, the presence of audit committees, financial expertise, and gender diversity on aspects like whistle-blowing policy disclosures, the establishment of hotlines, implementation of anti-misconduct policies, and the encouragement for a more robust whistle-blowing system. Additionally, these factors also affect responsible financial behavior and the overall perception of whistle-blowing practices.

Moreover, corporate governance, defined as the system directing and controlling companies, significantly influences corporate performance. Board of Directors, being instrumental in upholding effective corporate governance, play a pivotal role in shaping firm performance. Chancharat, et al. (2019) emphasizes the positive correlation between board structure attributes and firm performance. This underscores the relevance of board composition and structure in driving organizational success through effective governance mechanisms.

In the case study conducted by Gupta (2021), a disconcerting narrative unfolds, shedding light on the apparent prevalence of financial (mis-) management within the context of PMC Bank. The investigation suggests that the Bank's actions in the realm of financial management were far from being inaccurately labeled as a misnomer. PMC Bank, it appears, exercised an unrestrained approach to disbursing loans to financially distressed group companies of HDIL, often sidestepping the requisite due diligence procedures. The investigation uncovered numerous instances of irregularities, including loan round tripping, manipulation of credit approval memoranda, loans extended based on personal guarantees with inadequate collateral, and the questionable practice of ever greening loan default accounts. Corporate governance is crucial for ensuring accountability, credibility, trust, transparency, and integrity within institutions. For banks, as key public entities, maintaining high standards of corporate governance is essential to prevent risks to national financial and economic stability. This study also questions the bank management's decision to hide the institution's true financial state, emphasizing the need for accurate and transparent reporting by bank leaders to uphold responsible governance.

Transparency and disclosure of information are an essential element of corporate governance Pintea & Fulop (2015). Good transparency and disclosure are relevant to banks as well as this is the only way to facilitate market scrutiny and enhance the ability of supervisors and stakeholders to effectively monitor them (Capriglione & Casalino, 2014). The case study by Mukherjee (2023) reveals a prevailing narrative of shortcomings in governance and management standards as the foremost catalysts for the collapse of Urban Cooperative Banks (UCBs). Notably, the research emphasizes a pivotal governance issue contributing to UCB failures, which involves the disbursement of loans, both direct and indirect, to bank directors. The study highlights the prevalence of inter-branch account or bank reconciliation statements being employed as a convenient avenue for the embezzlement of funds. The inherent deficiencies in governance standards and management further exacerbated the situation by giving rise to subpar credit underwriting standards, misappropriations, credit concentration, and a lack of effective recovery mechanisms. Consequently, this downward spiral resulted in a marked deterioration of asset quality. The study highlights that poor governance is a key factor in bank failures. Lapses in due diligence for bank guarantees and preferential payments to select groups undermined depositor interests and contributed to the collapse of about 55% of UCBs. Governance issues, including regulatory breaches, poor asset quality, and liquidity problems, exacerbated these banks' vulnerabilities, leading to their downfall. This review underscores the essential role of effective governance in maintaining financial stability in UCBs.

Five dimensions of corporate governance practices viz., board structure and committees, board process, transparency and disclosure stakeholders' value enhancement and corporate social responsibility and sustainability were assessed to examine their association with organizational performance; by Poornima, et al. (2021). Chilumuri S. R. (2013) assessed the practice of corporate governance in the State Bank of India, focusing on key elements such as board practices, stakeholder services, and transparent disclosure of information. This study highlights the importance of these components in evaluating the effectiveness of corporate governance within banks.

PMC Bank's failure, attributed to mis-governance, mirrors a concerning trend among cooperative banks. This raises questions about the need for increased accountability. Issues in dual supervision and statutory provisions are cited as contributing to inadequate checks and balances. A conspiracy involving politicians, property owners, and bankers further incapacitated PMC Bank, leaving 1.6 million depositors in a precarious position. Whistleblowers played a crucial role in uncovering these fraudulent activities, emphasizing the need for their protection. The discovery of twenty-one thousand and twenty-nine dummy accounts used to conceal non-performing assets highlights the extent of the problem. This incident underscores a broader challenge within the Indian financial landscape, with private banks, public sector banks, and cooperative banks falling victim to similar issues (Mohan, 2021).

According to the Basel Committee on Banking Supervision (2005), the board of directors and senior management play a crucial role in influencing the daily operations of banks. They are responsible for ensuring accountability to shareholders while also considering the interests of other recognized stakeholders. This highlights the importance of governance in maintaining the balance between operational efficiency and stakeholder interests in the banking sector.

The pivotal role of audit committees in enhancing corporate governance and mitigating the risks associated with fraudulent financial reporting was emphasized in the report of Blue-Ribbon Committee (BRC, 1999). These committees serve as effective mechanisms overseeing an organization's management, internal, and external auditors, thereby safeguarding the interests and equity of shareholders. The literature emphasizes the importance of including the audit committee report in the annual proxy statement as a key element of corporate governance. The report highlights the audit committee's role in reviewing financial statements with management and auditors, ensuring accurate, reliable information, and serving as a governance monitor for stakeholders.

The book on Corporate Strategy underscores the comprehensive array of stakeholders involved in corporate governance, comprising both internal and external parties. Internal entities encompass shareholders, internal auditors, the audit committee, board of directors, CEOs, CFOs, and other managerial personnel. External entities include customers, suppliers, external auditors, stock exchanges, and governmental bodies. Additionally, other stakeholders with vested interests in the organization consist of employees, creditors, and the broader community. The governance structure varies according to the organization's size; in smaller family-owned businesses, the framework typically comprises shareholders, the board of directors, and managerial figures, some of whom may be family members. Conversely, larger publicly held corporations exhibit a more intricate governance chain, involving a broader spectrum of participants such as managers, senior executives, executive directors, the board, investment managers, fund trustees, and beneficiaries (Johnson, et al. 2008). This literature review highlights the diverse stakeholders and structural nuances within corporate governance across varying organizational scales.

A Study of (Al-Baidhani) explored the impact of internal corporate governance factors, such as board structure, ownership, and audit function, along with bank size and age, on financial performance. While the study found a significant link between governance and profitability, the relationship remains ambiguous, especially in developing countries with limited influence.

It may be stated that improvement in governance is as important as improving financial performance and banks should strive to improve their performance along corporate governance indicators as neglecting it may have severe repercussions on the financial health of a bank and long-term survival or sustainability (Kanojia & Bindra, 2018).

Venkatesha (2019) presents a comprehensive conceptual framework that elucidates the interplay between governance and performance within cooperative institutions. This framework, centered on the Souharda Act, delineates the pivotal components essential for effective governance and subsequent organizational performance. At its core, the study highlights the significance of freedom in operations enabled by the Souharda Act, serving as the foundation for governance. Governance structure, emphasizing transparency, accountability, and adherence to the rule of law, alongside governance processes rooted in democratic principles, collectively form the 'hardware' and 'software' (Level 2) crucial for cooperative governance.

According to the study, effective governance in cooperative societies is crucial for achieving 'Organizational Performance' (Level 3), evaluated through financial and non-financial metrics. Despite being service-oriented, cooperatives must ensure financial performance for long-term sustainability. The framework shows that deficiencies at any governance level indicate inadequate governance, underscoring the vital link between governance elements and performance outcomes. Improved board structures, administrative procedures, and disclosure requirements lead to better-governed banks that allocate investments more efficiently. Strong corporate governance supports regulatory oversight and enhances financial stability. Effective governance, change management, and innovative managerial skills act as the first line of defense against crises and unethical practices in banks and financial institutions.

The literature also accentuates the criticality of internal control and management systems as advocated by Mukerjee (2023). Srinivasa Rao (2019) emphasizes the significance of internal systemic controls, reporting mechanisms, and subsequent corrective measures post transaction scrutiny. The recent turmoil at Punjab and Maharashtra Cooperative Bank (PMC) has brought to light a governance shortfall within India's financial sector. Standard and Poor's (S&P) points out that India's financial institutions lag behind their global counterparts in terms of governance and transparency. Following the revelation of substantial financial irregularities, internal control failures, and misreporting of exposure, the Reserve Bank of India (RBI) intervened by appointing an administrator and superseding PMC's board of directors. PMC's actions, particularly the overextension of loans to a single distressed real estate company, exceeded prudential norms (Business Standard, 2023). Furthermore, Chilumuri.S (2013) highlights the pivotal role of disclosure and transparency in the corporate governance framework. These aspects facilitate the adequate dissemination of information to diverse stakeholders, empowering them to make well-informed decisions.

Findings of the study by Alina Boitan & Nitescu (2019), shows that the managerial efficiency and banking indicators are determined by boards' characteristics. Study of V.A & Iswajuni, (2020) has a practical implication regarding the importance of having effective audit committee for overseeing the firm reporting and financial performance.

The research conducted by Alina Boitan & Nitescu (2019) reveals that the characteristics of boards significantly influence managerial efficiency and banking indicators, shedding light on their interconnectedness. Similarly, the investigation by

V.A & Iswajuni (2020) highlights the practical significance of maintaining an effective audit committee. This committee plays a crucial role in overseeing firm reporting and financial performance, highlighting its instrumental role in ensuring accountability and financial transparency within organizations.

Organizations that practice good corporate governance are thought to be more productive, well-managed, and under control. Effective corporate governance and performance are related to the long-term viability of a firm. The four fundamental principles of corporate governance served as the project's primary focal point. These include treating shareholders fairly, being transparent, and the board meeting its accountability and responsibility obligations. The project's conclusions show that corporate governance procedures directly impact SACCOs' overall performance (Miano & Gitonga, 2020).

The study by Drona Lal & Walsh (2018) uncovers significant and positive correlations between professionalization and accountability, and the performance of cooperatives. Additionally, it finds relatively weaker but still positive associations between participation, transparency, and cooperative performance. In summary, the effectiveness of cooperatives hinges on the presence of governance factors such as legitimacy, participation, professionalization, accountability, and transparency, all underpinned by integrity. This research highlights the paramount importance of good governance in cooperatives, positioning it as the foremost solution. By doing so, the study contributes to the existing literature by identifying the pivotal governance elements that drive cooperative performance, particularly within the context of developing countries.

Different corporate governance mechanisms (Board Composition, Board Size, Frequency of Meetings and Audit Committee) were considered as independent variables. Board composition was also found to have a significant impact on firm risk where we used Beta as a proxy measure (Raj Pathak, S, & N, 2022).

In the research conducted by Kibet Kiptoo, et al. (2021), the findings highlight a clear and favorable relationship between board diversity and financial performance within insurance firms. The results indicate that insurance companies with a higher proportion of professional directors on their boards outperform those with a lower proportion. Consequently, this suggests that insurance firms can enhance their financial performance by actively involving a greater number of professional directors who can provide expert guidance and insights.

In their research, Cheversa, et al. (2016) revealed that the effectiveness of internal audit is notably influenced by the quality of audit investigation, organizational independence, professional proficiencies, and management support. These findings underscore the critical role that internal audit plays in ensuring the financial viability and health of financial institutions. Therefore, it is crucial for stakeholders and policymakers to recognize and appreciate the pivotal significance of internal audit in this context.

The study found that better CG practices led to better operating performance of the banks after the financial crisis periods. The changes in CG codes, board structures, disclosure requirements and board members' competencies over time had a significant influence on CG practices and subsequently improved operating performance of the banks (Orazalin& Mahmood, 2019).

As evidenced in the PECOL project, demutualization, digital transition, diversity, the professionalization of management, transparency, prevention of conflicts of interest and accountability, investor members and plural voting are the main challenges addressing the principle of democratic member control in the 21st century (Meira& Ramos, 2023).

The literature review also encompasses various studies shedding light on the factors contributing to audit failure and financial mismanagement within banking institutions. Akhidime (2019) identifies several critical drivers behind audit failure in distressed Nigerian banks. The study highlights the ineffectiveness of auditors due to inadequate regulation, a lenient legal liability system failing to hold auditors accountable, and corporate corruption. Auditing standards lack clear responsibilities for auditors in detecting and addressing corporate corruption, which in turn leads to fraudulent financial reporting. The boards and management of these banks utilize fraudulent financial statements to conceal the adverse impacts of their corrupt and unethical practices.

Additionally, E.Sierra, et al. (2006) establish a correlation between a robust board structure and enhanced firm performance, underscoring the pivotal role of strong governance in organizational success. Vijayakumar (2019) attributes the collapse of PMC Bank to failures in internal control systems and regulatory oversight, indicating the substantial impact of these deficiencies on financial institutions.

Governor, Sakthi Kantha Das of the Reserve Bank of India, as highlighted by Gopakumar, (2023), emphasizes the importance of governance in cooperative banks, emphasizing compliance, risk management, and internal audit as the pillars of quality governance. Pombarla (2021) emphasizes the consequences of inadequate and improper internal control and reporting systems, while Singhal& Chauhan (2021) specifically outline three critical violations: major financial irregularities, system failures, and misconduct in reporting lending exposure. These studies collectively illuminate the multifaceted nature of governance, regulatory lapses, internal controls, and transparency within financial institutions, emphasizing their critical roles in shaping the integrity and stability of banking systems.

Good governance, professional management, and sound internal controls ensure efficiency and integrity in Urban Cooperative Banks (UCBs), enhancing their financial and structural soundness over time. High-quality governance positively impacts UCBs' financial performance by promoting best business practices, robust checks and balances, and vigilant monitoring by senior management and the board. Additionally, a management culture committed to cooperative values is crucial. This paper builds on existing research and contributes specifically to the context of scheduled UCBs in India (Srivastava & Ajit Kumar, 2021).

Managerial ability is an economically significant determinant of investment efficiency, and the interactions between internal and external governance mechanisms and managerial ability were examined by Garcia-Sanchez & Garcia-Meca (2018). Their findings suggested that governance mechanisms are useful complementary measures to restrain inefficient investment decisions. The results of this study demonstrate that CG's financial and non-financial disclosures have a major impact on Indian banks' financial performance (Panchasara & Bharadia, 2013). According to the study, GCG is the factor that influences bank profitability the most broadly (Ghalib, 2018).

A concise summary of the key points extracted from the extensive literature review within the context of corporate governance in general and very particularly the governance in Urban Cooperative Banks has been grouped and presented as follows:

### *1.1 Transparency & Disclosure Practices:*

The relationship between governance practices, transparency, and financial indicators within urban cooperative banks in India was investigated. Notable factors include participation in annual general meetings, limited presence of family members on boards, and staff training, showing correlations with financial indicators. Board-related factors such as board size, independence, audit committees, financial expertise, and gender diversity significantly impact whistle-blowing policy disclosures and practices.

The collapse of PMC Bank highlighted governance and management shortcomings, emphasizing the crucial role of transparency, disclosure, and accurate financial reporting. Transparency is crucial for market scrutiny and effective monitoring by stakeholders and regulators. Corporate Governance & Disclosure: Good transparency and disclosure practices are vital for enhancing credibility, trust, and effective governance in banks and financial institutions.

### *1.2 Risk Management & Internal Control:*

Governance shortcomings contributed to the downfall of urban cooperative banks, leading to issues like regulatory breaches, compromised asset quality, and liquidity constraints. The pivotal role of audit committees in overseeing management, internal/external auditors, and ensuring accurate financial reporting was emphasized. The inclusion of audit committee reports in annual proxy statements is crucial for robust corporate governance. Effective internal controls, reporting mechanisms, and corrective measures post transaction scrutiny are vital for financial stability within financial institutions. Deficiencies in internal controls and regulatory oversight can lead to financial irregularities and misreporting, as seen in cases like PMC Bank.

### *1.3 Board Characteristics:*

Board composition, frequency of meetings, and the presence of audit committees significantly influence firm performance, return on assets, profit margins, and firm risk. Insurance firms with a higher proportion of professional directors on their boards tend to outperform those with a lower proportion, suggesting a positive impact on financial performance. Good corporate governance practices, including equitable treatment of shareholders, transparency, and board accountability, directly affect the overall performance of financial institutions.

## 2. Literature Review - Professional Management and Urban Cooperative Banks

Professional management demands qualified personnel, effective policies and procedures and strong internal control system. Lack of professionalism in management will affect the quality of the decisions and financial as well as non-financial difficulties for the bank. There is complete absence of professional managers at the top and middle levels who can run the banks professionally, Lack of self-discipline among top management and inability to restrain themselves from crooked deals are factors which cause scams in cooperative banks (Times of India, 2002). On the drivers of fraudulent financial reporting, this study confirms that poor and weak corporate governance as characterized by weak internal control and lax supervision are factors that drive fraudulent financial reporting (Akbar, 2017).

UCBs are to remain relevant and play a significant developmental role in India; they will require same quality of governance and regulation as well as professionalism and modernization as the mainstream commercial banks (Asher, 2007). Professionalism, linked with knowledge, skill, autonomy, commitment, and motivation, is essential for success. In cooperatives, professionalism involves understanding management roles, particularly of the Board of Directors and Chairman, and the importance of leadership. The 97th Constitutional Amendment underscores professional management in cooperatives, leading to legislative changes across Indian states, notably Karnataka. The Karnataka Cooperative Societies Act of 1959 was amended to incorporate this amendment, emphasizing a professional approach to cooperative management (Sumana, 2017).

The bottom line is that with proximity to the borrower and better understanding of local requirements, the larger UCBs can well be empowered to provide more complex banking services with higher capital adequacy and professional management (The Economic Times, 2021). To enhance professionalism in Urban Cooperative Banks (UCBs), the expert committee led by Y.H. Malegam (2010) and the High-Powered Committee led by R. Gandhi (2015) recommended establishing a Board of Management (BoM) alongside the Board of Directors (BoD). This additional BoM, composed of members with banking expertise, is intended to safeguard depositors' interests and ensure focused, professional management of UCBs (Financial Express, 2018).

The Reserve Bank of India (RBI) urged directors of urban cooperative banks (UCBs) to further strengthen their governance practices, especially the three supporting pillars of compliance, risk management and internal audit. On the functioning of boards, five aspects - adequate skills and expertise of directors, constitution of a professional board of management, diversity and tenure of board members, transparent and participatory nature of board discussions, and effective functioning of board-level committees, the central bank said in a release (Money Control News, 2023).

Since UCBs are accepting public deposits, it is imperative that a separate mechanism be put in place to protect the interests of depositors, the RBI said while proposing to implement a BoM consisting of members with special knowledge and practical experience in banking to facilitate professional management and focused attention to banking related activities of UCBs (India Today, 2018).

The RBI insists on professional management because it's vital to any banking institution. However, state governments frequently dissolve the UCBs' elected boards and assign public servants to oversee these banks' operations. The effectiveness of the UCBs decreases since the government authorities lack sufficient banking knowledge. Effective management of human resources (HRM) is a crucial element that characterizes a prosperous financial establishment. Developing managerial abilities in this industry is becoming increasingly difficult. Additionally, a lot of UCBs are looking for novel approaches to permit participation in the administration and delivery of personal services (Shah, 2016).

The sector's primary flaws are also a result of its cooperative nature, as the Expert Committee on Urban Co-Operative Banks noted. The three main flaws are insufficient funding sources, inexperienced management, which frequently results in subpar internal control systems, and insufficient IT skills combined with a shortage of qualified staff. The report also noted that a large number of UCBs lacked the governance and managerial capacity necessary to make wise business decisions within an appropriate framework for risk management (Report of the Expert Committee on Urban Cooperative Banks, July 2021).

The cooperative movement has suffered from an inadequacy of trained personnel right from the start (Nelito, 2022). It's common for cooperative banks to be hesitant to embrace new technologies, such as computerized data management. Due to a shortage of funding for employee training, professional management is frequently absent from banks (iPleaders, 2019).

Concerns regarding governance issues in co-operative banks have been voiced earlier by several committees constituted by the Government for studying the sector. It has been pointed out that co-operatives are unable to attract and retain competent professionals for various reasons such inability to pay market-based compensation, limited freedom for operations with the required delegation of authority, etc. Further, the fit & proper criteria stipulated by RBI which specifies qualifications for appointment of CEO is yet to be complied with by many banks (Ahmed & Debanshu, 2019).

Urban cooperative banks play a crucial role in the Indian banking sector but face challenges such as mismanagement, lack of professionalism, political interference, weak internal controls, and poor financial health due to high non-performing loans and insufficient capital. In today’s competitive and globalized environment, professional management is essential for success. Political interference has also hindered cooperative growth. To address these issues, various institutions offer education and training to improve management practices in urban cooperative banks (Agarwal).

Professional management correlated positively with capital, deposits, advances, and assets. It could be inferred that the banks with a better score for professional management enjoyed a superior position in these financial parameters. Regarding the control environment, positive correlations were observed in respect of reserves, deposits, investments, advances, assets, and PAT (Srivastava &Ajit Kumar, 2021).

The focus on professional management in Urban Co-operative Banks (UCBs) has been a central idea since the High-Power Committee on UCBs was formed by the RBI in 2001. Following its recommendations, it became mandatory for UCBs to have at least two professional directors on their board. This criterion was essential for UCBs to be labeled as Financially Sound and Well Managed. Despite this requirement, a significant number—specifically 111 UCBs—are yet to comply by having professional directors on their boards. This shortfall has adversely affected their overall performance. Although the Constitution (97th Amendment) Act of 2011 aimed to introduce some level of professionalization to cooperative banks' boards, the achievement of professional management akin to that of commercial banks remains a distant goal in the current operational framework (Gandhi, 2015).

The performance of cooperatives depends on existence of factors of good governance principles such as legitimacy, participation; professionalization, accountability, transparency, honesty, integrity and fairness that is normally associated with investor-owned organizations are also applicable in cooperatives. Because cooperatives have separate legal existence and governed by the board of directors elected by share members in general assembly (Puri, 2018).

Many Urban Cooperative Banks (UCBs) face issues due to governance problems and a lack of professionalism (Gandhi, 2014). According to Sapovadia (2019), poor professionalism is a primary cause of bank failures. Appointments in these banks are often based on recommendations and political influence rather than merit, leading to a lack of transparency, improper HR management, and neglect of legal norms. Employees often resist learning new banking practices, and decisions are frequently influenced by higher-ups rather than based on independent judgment. This creates a situation where relationships are prioritized over qualifications, and staff training is insufficient, hindering their ability to compete with commercial banks.

The study by Nayak&Chandiramani (2022), explored the importance of business ethics, information sharing and transparency to build an information-driven society by scouting the case of Punjab and Maharashtra Cooperative (PMC) Bank, India and that suggested the thorough disclosures regarding the product and its features become a crucial component to close this gap. Fair and forthright disclosures give clients the ability to compare various products from different service providers, enabling them to make an informed choice.

Corporate governance standards and professionalism have been identified as areas where UCBs often fall short. Compliance with banking regulations remains a concern, with non-compliance posing potential risks to the stability and integrity of the banking system (ETBFSI Research, 2023).

Effective management of Urban Cooperative Banks (UCBs) relies on professional management practices, supported by various studies. Professional qualifications for CEOs, accountability policies, training programs, and comprehensive compliance systems are essential for improved performance (Srivastava &Ajit Kumar, 2021; Ajit Kumar & Srivastava, 2020). Effective management also requires robust resource design, control, and regular oversight (Scholl & Sherwood, 2014). Professionalism in inspections, audits, and internal controls is crucial (Kelkar, 2019; Sapovadia, 2019; Kaur, 2022; BhagabataBehera, 2014; Mukherjee, 2023; Srinivasan, 2012; Srivastava &Ajit Kumar, 2021; Srinivasa Rao, 2019; Batra, 2022). Additionally, involving professional directors in audit committees and ensuring prudent certification of reports is recommended (BhagabataBehera, 2014). Risk management and problem detection systems are also vital (Muranda, 2006).

The literature emphasizes the critical role of professional management, transparency, compliance, and skill development in enhancing the performance and stability of Urban Co-operative Banks (UCBs). Accordingly, the extracts of the extensive review have been summarized and presented under the following heads:

### *2.1 Accounting, Reporting, Audit, and Supervision/Compliance:*

Effective professional management within the banking sector plays a pivotal role in ensuring prudent financial decisions and combating fraudulent reporting. Instances of fraudulent financial reporting often arise due to deficiencies in corporate governance, weak internal controls, and inadequate supervision. Co-operative banks face governance challenges primarily linked to restricted capital raising, feeble internal control systems, and insufficient IT capabilities. Recognizing the significance of proficient management, the RBI underscores the establishment of a Board of Management (BoM) comprising individuals well-versed in banking to facilitate effective governance. Despite this emphasis, UCBs grapple with governance issues, lack of professional management, and undue political interference, thereby impacting their overall performance. Emphasizing transparency, information sharing, and fair disclosures stands crucial in fostering an information-centric society, addressing critical aspects within the banking landscape.

### *2.2 Regulatory Framework:*

The Reserve Bank of India (RBI) has persistently advocated for Urban Co-operative Banks (UCBs) to bolster their governance practices, particularly emphasizing aspects like compliance, risk management, and internal audit. Acknowledging the importance of effective board composition, recommendations stress the inclusion of professional directors within UCB boards to enhance financial robustness and overall management efficiency. However, despite these recommendations, compliance with banking regulations continues to pose a significant challenge, potentially posing risks to the stability and integrity of the banking system. Strengthening governance practices, integrating professional expertise within boards, and ensuring regulatory compliance are all pivotal factors in elevating the managerial effectiveness of UCBs.

### *2.3 HR Policy, Training, and Capacity Building:*

Human resource management stands as a crucial pillar for the success of banking institutions, particularly in cooperative banks. However, the lack of trained personnel, primarily due to insufficient funds, significantly affects the professional management of these banks. Challenges in attracting and retaining competent professionals persist due to limitations in offering competitive compensation and providing operational freedom. To bolster managerial effectiveness within the cooperative banking sector, there is an essential need for investing in training programs and skill development initiatives aimed at enhancing the capabilities of existing talent. Prioritizing human resource management and addressing these training needs are pivotal steps towards strengthening the managerial effectiveness of Urban Co-operative Banks (UCBs).

### *2.4 Continuous Improvement:*

For cooperatives, integrating good governance principles such as professionalism, accountability, transparency, and fairness is imperative. The positive correlation between Urban Co-operative Banks' (UCBs) performance and professional management, notably reflected in metrics like capital, deposits, advances, and assets, underscores the pivotal role of adept management practices. Achieving effective performance hinges on embracing professional management methodologies, demanding well-trained managers, robust compliance mechanisms, and robust risk management systems. These facets collectively contribute to enhancing the managerial effectiveness of UCBs, fostering their sustained growth and stability within the banking landscape.

## 3. Literature Review – External Control and Urban Cooperative Banks

The management of banks, particularly Urban Cooperative Banks (UCBs), has been a subject of scholarly inquiry and concern, as evidenced by various studies by Ajit Kumar & Srivastava, (2020), Sapovadia (2008), Gupta (2021) and Muranda (2006). These studies collectively highlight the complex dynamics surrounding central bank interventions and the critical issues plaguing the UCB sector. In the exploration of recent challenges within the UCB sector, a predominant focus has been on the intricacies of dual regulation. Muranda (2006) notes a deficiency in the exercise of corporate governance within financial institutions before the manifestation of financial distress. It was observed that the Central bank displayed limited emphasis on scrutinizing the governance frameworks prevalent in these institutions, signaling potential vulnerabilities that could lead to financial instability.

An overarching issue highlighted by various scholars, such as Unnikrishnan (2020) and Gopakumar (2019), pertains to the regulatory complexities arising from dual oversight. The absence of comprehensive scrutiny of cooperative banks, including UCBs, over an extended period, spanning nearly two years, is attributed to the convolutions arising from dual regulation and the encroachment of political influences at the state level. The Reserve Bank of India (RBI) holds regulatory authority over these banks, but its oversight is partial, sharing responsibilities with the Registrar of Cooperative Societies (RCS).

The primary operational assessments and regulatory activities fall under the purview of the RCS, often assigned to retiring Indian Administrative Service (IAS) officials. However, this arrangement is marred by the considerable sway that local politicians exert within these institutions. Politicians' dominance over the governance structures of these banks, their involvement in management appointments, and influence in board member selection impede effective supervision and lead to systemic vulnerabilities, as emphasized by Gopakumar (2019). Consequently, the interplay between the central bank's supervisory role and the RCS's involvement in managerial aspects of cooperative banks underscores a fragmented regulatory landscape. The confluence of political interference and insufficient regulatory scrutiny poses formidable challenges to the sound governance and financial stability of these institutions.

A contrasting viewpoint posits that recent upheavals within the sector stem predominantly from deceptive reporting practices, notably exemplified by the fraudulent occurrences in PMC Bank and the CKP Bank crisis. This school of thought underscores that a significant exposure to a singular entity within the real estate domain was obscured through an intricate web of fictitious accounts. Misleading disclosures were made to the Reserve Bank of India (RBI) and potentially to auditors, implicating the CEO and the Board as primarily responsible for these discrepancies. This perspective, as articulated by Dhoot (2019), disputes the notion that the sector's turmoil was solely a result of dual regulation.

The limitations imposed on the RBI's regulatory and supervisory powers considerably hampered its ability to swiftly address irregularities in the cooperative banking sector. The inherent constraints within the regulatory framework restrained the RBI's proactive intervention in instances of malpractice or irregularities. However, significant alterations in the governance structure of cooperative banks were introduced following Parliament's endorsement of amendments to the Banking Regulation Act. This legislative amendment endowed the central bank with enhanced authority akin to its oversight of scheduled banks, empowering the RBI to exert robust control over cooperative banks. Furthermore, this regulatory overhaul granted the RBI a pivotal role in pivotal appointments within these financial entities (Times of India, 2021).

The divergent viewpoints presented in the literature regarding the causative factors behind the sector's crisis underscore the multifaceted nature of the challenges faced by cooperative banks. While one perspective highlights deceptive reporting and internal governance as primary culprits, another emphasizes the regulatory limitations and subsequent reforms necessary for bolstering the RBI's oversight and control mechanisms over these banks.

The legislative amendments, as outlined in the recent reportage, signify a paradigm shift in the regulatory landscape governing cooperative banks, signaling a pivotal transition toward aligning their supervision with that of scheduled banks. This shift holds the promise of fortifying the RBI’s regulatory prowess and enhancing its capability to effectively mitigate risks, enforces compliance, and ensure robust governance within the cooperative banking sector.

In essence, the literature reviewed accentuates the pressing need for cohesive regulatory frameworks, stronger corporate governance practices, and reduced political interference in the administration of UCBs. Addressing these multifaceted challenges is imperative to fortify the resilience and sustainability of cooperative banks within the broader financial ecosystem.

## 4. Literature Review - Managerial Effectiveness and Urban Cooperative Banks

The literature on managerial effectiveness highlights several key predictors of managerial skills. Analoui (1995, 1997, 1999, and 2007) identified eight parameters influencing managerial effectiveness, including managerial perception, skills, knowledge, organizational criteria, motivation, constraints, choices, inter-organizational relationships, and managerial philosophy. Personal, organizational, and environmental factors also significantly impact these parameters (Analoui, 1999). Bamel, et al. (2015) examined behavioral indicators of managerial effectiveness in India, focusing on productivity, flexibility, and adaptability. Negi and Dangwal (2021) assessed managerial effectiveness in Indian banks, evaluating constructs such as action orientation, self-disclosure, receptivity to feedback, and perceptiveness.

The scholarly work conducted by Dabbou & Mahjoub (2020) consolidates recent empirical and theoretical studies that explore the determinants of liquidity creation within banking institutions. This study introduces managerial ability as a significant precursor to a bank's intermediation process. Moreover, it underscores the quantification of managerial ability as a pivotal performance indicator for the prudent oversight of banks, enabling regulators to strategically target interventions, particularly during periods of financial crises.

A descriptive analysis conducted by Mallick & Das (2020) digs into the relationship between management ability and profitability within banking institutions. Their exploration reveals a satisfying and positive association between management ability and Non-Interest Income to Working Fund (NNIWF), indicating a favorable impact on profitability. Conversely, the study finds a negative relationship between management ability and profitability concerning the Cost of Deposits (CODP) and BPE (unspecified acronym), suggesting that these factors have an adverse effect on profitability.

The significance of managerial ability in the success of firms has been extensively explored in the literature. Kiong Ting, et al. (2021) highlights the importance of managerial ability in establishing, advancing, and ultimately achieving firm success. Their study measures success through various metrics including productivity, investment decisions, compensation structures, and overall firm performance.

Moreover, the interplay between internal and external governance mechanisms alongside managerial ability has been investigated by Sanchez, et al. (2018). Their research indicates that managerial ability serves as a crucial determinant of investment efficiency. They further suggest that governance mechanisms play an essential role as complementary measures to regulate inefficient investment decisions, thereby contributing to economic relevance within firms.

Similarly, Andreou, et al. (2015) provides insights into the relationship between managerial ability and corporate investment. Their study corroborates a positive association between managerial ability and corporate investment decisions. Furthermore, they suggest that firms exhibiting stronger managerial abilities possess greater capacity to secure financing, rendering them less susceptible to financial constraints, particularly during periods of crisis.

Ajit Kumar &Srivatsava, (2020) analytical study investigates beyond governance issues and frauds to examine the failure of Urban Cooperative Banks (UCBs) in India. They analyze liquidity measures and asset quality, shedding light on additional factors influencing UCB failures. In a study conducted in Nigeria, Roman, et al. (2020) focus on evaluating the management efficiency of banks. Their research aims to ascertain how effectively Nigerian banks' management handles deposits, assets, capital, and shareholders' funds to maximize returns for shareholders. Meanwhile, Luu, Doan, & Anh (2021) investigate the impact of managerial ability on bank failure. Their findings suggest that banks with more capable management experience a lower probability of failure. Their analysis further supports this notion by revealing that well-managed banks demonstrate attributes such as more adequate capital, improved asset quality, efficient resource allocation, higher liquidity, and reduced risk.

Moreover, the effectiveness of managers has been a subject of inquiry for several researchers. Negi & Dangwal (2021) highlight various dimensions used to determine managerial effectiveness, citing studies by Bursk (1955), Reddin (1970) and Drucker (1970) which emphasize achievement, output, expertise, and result-orientation as crucial elements in evaluating managerial effectiveness.

Based on the references, the literature review substantiates that managerial effectiveness encompasses the skillful utilization of resources, adherence to governance standards, effective oversight, and the implementation of professional management strategies, all contributing to the smooth operation, stability, and sustainable growth of an organization. Simultaneously, selecting appropriate and highly relevant measures specific to the banking group under scrutiny is imperative.

Sound management stands as a pivotal factor influencing the performance of any bank.

The extensive literature on managerial effectiveness in banking institutions highlights key determinants that significantly impact the performance of Urban Co-operative Banks (UCBs). Studies suggest that managerial abilities, encompassing skills, knowledge, and effective oversight, play a pivotal role in shaping a bank's success. These abilities affect risk-taking behaviors, profitability, liquidity, asset quality, and overall operational efficiency. Furthermore, governance standards, the interplay between internal and external governance mechanisms, and the capability of managers significantly influence investment decisions, risk management, and organizational performance. Additionally, research underlines the importance of selecting relevant measures specific to banking institutions for an accurate assessment of managerial effectiveness. Overall, the literature strongly underscores the crucial role of effective management in ensuring the stability, growth, and sustained success of UCBs.

## 5. Review of Literature – Bank Performance and Scheduled Urban Cooperative Banks

The literature testing the firms performance, especially the relationship between different corporate governances' mechanisms and from performance is extensive Pandya (2011), Islama, Sathyeb, &Huc (2015), Rahman, Yussoff Ibrahim & Ahmad (2015), Panchasara&Bharadia, (2013), Peni&Vähämaa (2012), Hassan, et al (2015), Pathak, et al. (2022), Kyere&Ausloos (2021), Iswajuni (2020), AyazulHaq, et al. (2020), Kiptoo, et al. (2021), Karabulut, et al. (2020), (Faruqi, at al. (2019), Mnasri (2015), Miano&Gitonga (2020), Kayani, et al. (2021), Abdallah & Ismail, 2017 and Orazalin& Mahmood (2019).

Regarding performance there are three main approaches to firm performance in social science research: research based on market prices, accounting ratios and total factor profitability. The most used performance measures are; Tobin's Q, Return on Equity (ROE), Return on Assets (ROA) and Economic Value Added (EVA) (Mirela-Oana& Melinda-Timea, 2015). Additionally, Interest Margin (NIM) has also been taken by

Ghalib (2018) for studying the effectiveness of good corporate governance.

The two widely utilized performance metrics, Return on Assets (ROA) and Return on Equity (ROE), are fundamental accounting ratios utilized to assess a company's profitability. Both metrics serve as crucial indicators in evaluating how efficiently a company generates earnings from its assets and equity, respectively. ROA measures the ability of a company to utilize its assets to generate profit, while ROE assesses how effectively a company utilizes shareholders' equity to produce returns.

Conversely, Tobin's Q is a market value-based measure of performance used to evaluate firms by comparing the market value of their assets to the replacement cost of those assets. This metric considers market value in relation to the actual worth of a company's assets. However, in the case of cooperative institutions, including scheduled Urban Cooperative Banks (UCBs), the application of Tobin's Q for performance measurement encounters limitations. Cooperative institutions often lack a market value for their equity since their shares are not freely transferable or traded publicly. The absence of freely tradable shares makes it challenging to derive an accurate market-based valuation of their assets in relation to their replacement costs, thus rendering Tobin's Q impractical or infeasible as a measure of performance in such scenarios.

Accordingly, due to the unique nature of cooperative institutions and UCBs, where the absence of freely transferable shares hinders the establishment of market-based valuations, traditional market value-based measures like Tobin's Q cannot be effectively applied to measure performance within this study context. As a result, the focus remains on utilizing accounting ratios like ROA and ROE, which rely on financial statements and internal accounting data to evaluate and gauge profitability and efficiency within these specific types of financial institutions.

In the realm of research concerning the assessment of relative performance, particularly in the context of Urban Cooperative Banks (UCBs), there remains a noticeable scarcity of studies that deeply delve into the relationship between governance factors and performance metrics. Within this niche, only a handful of research initiatives have examined the intricate link between governance practices and the performance of Scheduled Urban Cooperative Banks in India. Notably, studies such as those conducted by Srivastava &Ajit Kumar (2021) stand out as rare endeavors that explored this relationship, utilizing performance parameters such as Net Interest Margin (NIM), Return on Assets (ROA), and Return on Equity (ROE).

Given the dearth of comprehensive investigations in this field, this study aligns with the trajectory established by prior research efforts. It focuses on employing ROE, ROA, and NIM as the chosen performance measures within the framework of governance and performance analysis in Urban Cooperative Banks. By utilizing these established performance indicators, this study aims to contribute to the ongoing discourse on governance-related factors and their impact on the financial performance of UCBs, building upon the limited yet notable groundwork laid by previous scholarly inquiries.

The review of existing literature on the functioning of Urban Cooperative Banks in India reveals in general the conceptual background on the subject as a whole and particularly in terms of evolution and experiences. It further reveals several critical aspects, classified broadly as follows:

- ***Genesis, Structure, Growth, Current Status, and Challenges of UCBs****:* The literature extensively covers the historical development, structural organization, and growth trajectory of UCBs. It discusses the current status of these banks and highlights persistent challenges such as regulatory compliance, financial stability, and market competition.

- ***Governance Issues within UCBs, Particularly Scheduled Urban Cooperative Banks (SUCBs):*** Governance challenges are a significant concern, particularly highlighted through instances of failures and financial distress in SUCBs. The literature emphasizes issues like board effectiveness, accountability, transparency, conflict of interest, and regulatory oversight.

- ***Uniqueness of UCBs and the Aspect of "Dual Control****":* UCBs operate under a unique framework of dual control, being regulated both by the Reserve Bank of India (RBI) and the Registrar of Cooperative Societies (RCS). This dual control mechanism presents both opportunities and challenges in terms of regulatory compliance and operational efficiency.

- ***Traces of Professional Management Practices:*** While traditional management practices dominate, there is a growing trend towards the adoption of professional management practices within UCBs. The literature points to gradual improvements in management efficiency and the adoption of best practices from the broader banking sector.

- ***Managerial Effectiveness and Performance in SUCBs:*** Identifying dimensions of managerial effectiveness and performance, the literature focuses on performance metrics and managerial practices in SUCBs are analyzed to understand their impact on overall bank performance and stability.

These features encapsulate the diverse range of topics covered by the relevant literature on Urban Cooperative Banks (UCBs) in India, offering a comprehensive understanding of their evolution, governance challenges, regulatory dynamics, management practices, and performance dimensions. Numerous studies have measured the governance and performance of banks; however, examining the performance of Scheduled Urban Cooperative Banks (SUCBs) is particularly unique. This uniqueness arises from the cooperative nature of ownership, characterized by the distinction between shareholders and members, the non-transferability of shares, and the distinct governance framework of SUCBs. The performance of SUCBs is thus defined based on the extensive literature on UCBs, which highlights these unique attributes. In light of these considerations, the present study has been conceptualized with a specific focus on Scheduled Urban Cooperative Banks in India, aiming to provide valuable insights into their operational and governance frameworks. Accordingly, the research model is conceptualized and presented below:

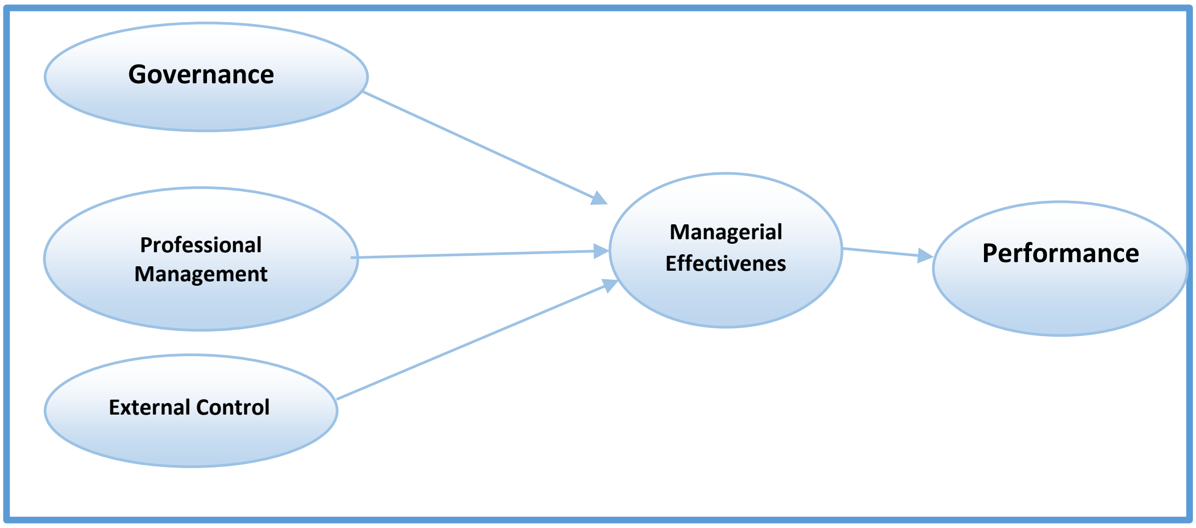
## 6. Conceptual Model

The performance of banks is shaped by the influence of board of governance, the level of professional management, and the quality of external control. High levels of good governance led to better bank performance and a reduced likelihood of bank failure. Conversely, weak governance results in poor bank performance and an increased risk of failure. The Reserve Bank of India (RBI) and the Registrar of Cooperative Societies (RCS) are the two primary entities that exercise external control over banks. The RCS is in charge of things like incorporation, management, administration, election, and audits under the State Cooperative Societies Act (for banks operating within a single state) or the Central Registrar of Cooperative Societies (CRCS) for Multi-State Cooperative Banks.

Meanwhile, the RBI regulates bank licensing, loan and interest rate policies, prudential norms, and inspections. However, the RBI has limited authority in supervising cooperative banks, and the RCS and cooperative department officers typically lack the professional qualifications necessary to effectively control and monitor a financial institution, beyond what is mandated by the Act. This disparity in control and oversight capabilities poses significant challenges to ensuring robust governance and, consequently, optimal bank performance.

Considering the distinct characteristics of UCBs in India, such as dual control and the combination of cooperative ideology with commercial banking, this research framework has been conceptualized. Governance, professional management, and external control are identified as the determinants of managerial effectiveness in Scheduled Urban Cooperative Banks (SCUBs), which subsequently influences their overall performance. The pattern of relationship the study aims to analyze is depicted in **Figure-1** so as to infer certain conclusive remark on the factor (s) affecting the performance of UCBs.

**Figure-1**




**Source : ( Research Model Based on Review of Literature)**

### *a. Governance and Managerial Effectiveness*

(Source: Research Model Based on Review of Literature)

A wide range of literature reviewed reveals a new phase of thoughts and it sets the stage for the study, emphasizing the multifaceted association of good governance for the managerial effectiveness of urban banking sector and its real-world implications (Mukherjee, 2023; Sapovadia, 2008; Asher, 2007; Srivastava &Ajit Kumar, 2021; Chaudhry &Malik.S, 2009; Wakaisuka-Isingoma.J, Aduda.J, &Mwangi, 2016; Dayanandhan.R, 2014; Lakshmi &Manoj P.K., 2015; Karthikeyan, 2008; Ambastha.A&Momaya, K. S., 2004; Scholl, M. & Sherwood, A. , 2014; Momaya, K. S, 2014; Gupta, 2021; Kumar & Srivastava, 2020; Poornima, et al., 2021; Chilumuri, 2013; Mohan, 2021; Al-Baidhani; Kanojia&Bindra, 2018; Venkatesha, 2019; V.A &Iswajuni, 2020; Miano&Gitonga, 2020; Drona Lal & Walsh, 2018; Raj Pathak, S, & N, 2022; KibetKiptoo, Kariuki, &Ocharo, 2021; Cheversa, Lawrencea, Laidlawa, &Nicholsona, 2016; Orazalin& Mahmood, 2019; Meira& Ramos, 2023; E, Sierra, Talmor, & Wallace, 2006; Panchasara&Bharadia, 2013; Ghalib, 2018;Kalyanasundram, 2018; Chancharat, Detthamrong, &Chancharat, 2019). Three aspects namely “Transparency & Disclosure Practices (F. Capriglione et al, 2014; Ambuja Gupta, 2021,Pintea &Fulop, 2015, Capriglione&Casalino, 2014, Pombarla, 2021), Risk management &Internal control (Abhay Pant et al, 2019; F. Capriglione et al, 2014; Sargunpreet Kaur, 2022,Vijayakumar, 2019 and Gopakumar, 2023, and Singhal& Chauhan, 2021)and board characteristics (AjitKumar et al, 2020; Abhay Pant et al, 2019; Ramesha, 2003; F. Capriglione et al, 2014; Mirela-OanaPintea et al,)” have been used as the attributes for analysis which have been considered on the basis of an intensive review of the prescriptive, conceptual, practitioner and empirical literature available on the governance of UCBs in India.

***Proposition:*** The study proposes that effective governance, characterized by robust transparency and disclosure practices, comprehensive risk management and internal control mechanisms, and well-defined board characteristics, positively influences the managerial effectiveness of Urban Cooperative Banks (UCBs) in India. This proposition is grounded in a comprehensive review of the literature, which highlights the multifaceted association between good governance and managerial outcomes in the urban banking sector. The hypothesis to be tested is whether governance practices have a significant and positive impact on the managerial effectiveness of UCBs, as opposed to having no influence. Consequently, this analysis seeks to evaluate the impact of governance on managerial effectiveness by testing the following hypothesis:

*$H1_1$: There is a positive influence of governance on managerial effectiveness*

*$H1_0$: There is no positive influence of governance on managerial effectiveness*

### *7. Professional Management and Managerial Effectiveness*

The analysis of diverse literature reveals that the factors influencing professional management in urban cooperative banks can vary based on the bank's size, geographical location, and organizational structure. Additionally, evolving market conditions and regulatory changes can impact the determinants of professional management over time. In general, the adoption of professional management practices in urban cooperative banks in India has been driven by a combination of regulatory measures, governance reforms, market dynamics, and the recognition of the need for professional skills and expertise. Collaboration and knowledge sharing with industry associations, regulatory bodies, and professional networks also provide valuable insights and support the implementation of best practices. Accordingly, the following prominent areas of professional management have been identified to analyze their influence on the managerial effectiveness of Scheduled UCBs: Accounting, Reporting, Auditing & Supervision, Compliance and Regulatory Framework, HR Policy, Training & Capacity Building and Continuous Improvement.

***Proposition:*** The study proposes that the adoption of professional management practices, encompassing areas such as accounting, reporting, auditing and supervision, compliance and regulatory framework, HR policy, training and capacity building, and continuous improvement, significantly enhances the managerial effectiveness of Scheduled Urban Cooperative Banks (UCBs) in India. This proposition is based on a comprehensive review of the literature, which indicates that the factors influencing professional management in UCBs vary according to the bank's size, geographical location, and organizational structure, and are further impacted by evolving market conditions and regulatory changes. The hypothesis to be tested is whether professional management practices have a significant and positive impact on the managerial effectiveness of Scheduled UCBs, as opposed to having no influence and accordingly the null hypothesis is as follows:

*$H2_1$: There is a direct relationship between professional management and managerial effectiveness*

*$H2_0$: There is no direct relationship between professional management on managerial effectiveness*

### *7.1. External Control and Managerial Effectiveness*

Studying the impact of "external control" on the "managerial effectiveness" of Urban Cooperative Banks (UCBs) in India is paramount due to its far-reaching implications on the stability, governance, and overall health of these financial institutions and such studies facilitate informed policymaking, identify regulatory gaps, and aid in fortifying the regulatory landscape governing UCBs, ultimately enhancing their managerial effectiveness and overall stability. The study embarks on a comprehensive analysis in the subsequent section, aimed at evaluating the extent to which external control mechanisms exert influence over the managerial effectiveness of Scheduled Urban Cooperative Banks (UCBs). The objective is to scrutinize and understand the dynamics of the relationship between these regulatory and oversight mechanisms and efficiency of UCBs management. Through this examination, the study aims to elucidate the tangible impact of external control on the functioning and effectiveness of Urban Cooperative Banks (UCBs), highlighting the interplay between regulatory factors and managerial outcomes.

***Proposition:*** The study proposes that external control mechanism, encircling regulatory and oversight measures, significantly influence the managerial effectiveness of Scheduled Urban Cooperative Banks (UCBs) in India. This proposition is founded on the recognition that external control plays a crucial role in shaping the stability, governance, and overall health of these financial institutions. By examining the extent to which these control mechanisms affect managerial effectiveness, the study aims to provide insights that will facilitate informed policymaking, identify regulatory gaps, and strengthen the regulatory framework governing UCBs. The hypothesis to be tested is whether external control mechanisms have a significant and positive impact on the managerial effectiveness of UCBs, as opposed to having no influence.

*$H3_1$: There is a significant influence of external control on managerial effectiveness*

*$H3_0$: There is no significant influence of external control on managerial effectiveness*

### *7.2. Managerial Effectiveness and Performance*

Given the limited comprehensive investigations in this field, this study follows the trajectory established by prior research efforts. It focuses on employing Return on Assets and Net Interest Margin as the selected performance measures within the framework of managerial effectiveness and performance analysis in Scheduled Urban Cooperative Banks (UCBs). By utilizing these established performance indicators, the study aims to contribute to the ongoing discourse on management-related factors and their impact on the performance of UCBs, building upon the limited yet significant groundwork laid by previous scholarly inquiries.

***Proposition**:* The study proposes that managerial effectiveness significantly influences the performance of Scheduled Urban Cooperative Banks (UCBs), as measured by Return on Assets (ROA) and Net Interest Margin (NIM). This proposition is grounded in the recognition of the importance of management-related factors in determining the performance outcomes of UCBs. By focusing on these established performance indicators, the study aims to enrich the ongoing discourse on how managerial effectiveness impacts UCB performance, building upon the existing yet limited body of scholarly research. The hypothesis to be tested is whether there is a significant and positive relationship and impact of managerial effectiveness on the performance of UCBs, as opposed to having no influence.

*$H4_1$: There is a significant relationship and impact of managerial effectiveness on performance*

*$H4_0$: There is no significant relationship and impact of managerial effectiveness on performance*

# CHAPTER – 3

## METHODOLOGY AND SCOPE OF THE STUDY

The urban cooperative banking sector has been the subject of numerous studies over the past several decades, addressing aspects such as performance analysis, status, issues, and challenges. While the relationship and leverage between managerial effectiveness and the performance of various business entities, particularly in the banking sector, have been extensively researched, this phenomenon remains largely unexplored within the context of India's urban banking sector. A significant shortcoming is a dearth of empirical research on this subject. With the happenings of operational distress and failures within the urban banking sector, the literature is notably meagre, comprising a limited number of works published as articles in edited books, professional journals, committee reports, and conference papers. The research that is currently available in India on urban cooperative banks is mostly exploratory and conceptual in nature, frequently depending on general or insights from case studies in the industry. The topic is largely unexplored both conceptually and empirically, as seen by the paucity of academic discussion on the subject despite the abundance of publications, book chapters, and reports on the subject.

Therefore, while previous attempts have been made to define, understand, and theorize the determinants of managerial effectiveness and performance in urban cooperative banks in India, there is a clear need for further research. By focusing on industry response, current trends, and consequences, the understanding of this subject can be significantly enriched. This study aims to address several identified deficiencies in prior research, specifically:

- Lack of a well-developed theoretical framework supported by empirical evidence that clarifies the connections and effects of management performance and effectiveness in the context of Indian urban cooperative banking.

- Paucity of empirical research from the perspective of stakeholders, particularly concerning governance, professional management, and external control, as well as the strategic responses within the urban banking industry.

Addressing these gaps will contribute to deeper insights on examining the factors influencing managerial effectiveness and performance in the urban cooperative banking sector, thereby advancing both theoretical and empirical knowledge in this domain.

## 1. Need for and Importance of the Study

Urban Cooperative Banks (UCBs) in India are grappling with numerous challenges that impede their business performance, including issues related to deposit mobilization, credit dispensation, capital adequacy, profitability, and asset quality. Effective governance, which involves establishing best practices and robust control systems, is essential for the optimal performance of these banks. However, the sector faces significant governance deficiencies, including poor accountability, weak internal controls, and inadequate information disclosure, which compromise transparency and decision-making. The sector's difficulties are further compounded by political interference, leading to poor lending decisions and ineffective recovery practices.

The failures of several high-profile cooperative banks, such as Madhavpura Cooperative Bank, PMC Bank, and others, have underscored these issues, highlighting the rise of non-performing assets (NPAs), poor governance, and lack of professionalism. These failures have eroded depositor confidence, leading to a destabilizing rush to withdraw funds. Additionally, the dual control system, political interference, and regulatory challenges have exacerbated the situation. Recent legislative amendments empowering the Reserve Bank of India (RBI) aim to address these governance issues by strengthening oversight and regulatory mechanisms.

Existing literature on managerial effectiveness in the banking sector emphasizes the importance of managerial skills, governance adherence, and strategic management. However, research specific to SUCBs is limited, particularly regarding the empirical analysis of governance, professional management, and external control from the perspective of stakeholders. This study aims to fill these gaps by providing a comprehensive examination of the critical factors influencing SUCB performance and offering valuable recommendations to enhance governance and managerial effectiveness.

### *1.1 Research Gap*

The proposed study stands out by addressing the significant gaps in existing research through a multidimensional approach. It will develop an empirically grounded theoretical framework that elucidates the relationships between managerial effectiveness, governance, professional management, and external control specifically within the context of Scheduled Urban Cooperative Banks in India. This comprehensive analysis will incorporate stakeholder perspectives, which have been largely overlooked in prior studies, providing a holistic understanding of the sector's challenges and opportunities.

### *1.2 Relevance*

The relevance of the proposed study is emphasized by the ongoing crises and challenges faced by UCBs, which threaten the stability and resilience of the cooperative credit movement in India. The study's focus on governance deficiencies, regulatory oversight, and the need for professional management aligns with current legislative and regulatory efforts to strengthen the sector. By providing a detailed analysis of these issues and offering practical solutions, the study will support efforts to restore depositor confidence, enhance operational efficiency, and ensure the long-term viability of UCBs.

### *1.3 Significance*

This study is significant because it aims to provide actionable insights into improving the performance and sustainability of UCBs. By focusing on the critical areas of governance, professional management, and external control, the study will offer evidence-based recommendations to enhance managerial effectiveness, which is crucial for addressing the sector's current challenges. The findings will be valuable for policymakers, regulators, and SUCBs management, contributing to the development of more healthy governance frameworks and professional management practices.

In conclusion, the proposed study will uniquely contribute to the literature by addressing critical research gaps, providing significant insights into improving SUCB governance and managerial effectiveness, and offering relevant recommendations to enhance the sector's performance and stability. This comprehensive approach will ensure that UCBs can effectively steer their challenges and achieve sustainable growth within the broader financial ecosystem.

## 2. Objectives of the Study

a) To comprehensively understand and analyze the structure, performance, and achievements of Urban Cooperative Banks (UCBs) Sector in India.

b) To critically analyze the issues and challenges faced by Scheduled UCBs in achieving their performance objectives.

c) To identify the key determinants of managerial effectiveness in scheduled urban cooperative banks in India.

d) To examine the relationship between managerial effectiveness and the performance of scheduled urban cooperative banks.

e) To propose suitable policy measures to enhance the performance of Scheduled Urban Cooperative Banks.

## 3. Methodology and Sampling Design

The study focused on Scheduled Urban Cooperative Banks (SUCBs) in India, incorporating a blend of primary and secondary data sources. Its chief objective is the empirical examination and illustration of the relationship between the variables under scrutiny. Specifically, the research investigates into the perspectives of banks concerning the policy dimensions associated with the variables being investigated. In that vein, the study's respondents include Office Bearers and CEOs.

As of March 31st, 2022, the count of SUCBs stood at 53. Notably, the exclusion of Punjab-Maharashtra Cooperative Bank, alongside Kapol Co-operative Bank Limited, Mumbai, and Rupee Co-operative Bank Limited, was made due to the former's insolvency and the latter two's substandard performance metrics in terms of Net Interest Margin (NIM) and Capital to Risk (Weighted) Assets Ratio (CRAR). Consequently, the research universe was refined to encompass 50 SUCBs. To gather insights from the respondents of selected banks, structured questionnaires were extensively employed.

### *3.1 Sampling:*

A pivotal phase of the investigation involved surveying the perceptions of Office Bearers and CEOs from 50 Scheduled Urban Cooperative Banks (SCUBs) in India. Given the context and specific requirements of the study, the appropriate sampling technique is Stratified Random Sampling. The population of interest consists of Office Bearers and CEOs from 50 Scheduled Urban Cooperative Banks (SUCBs). Each SUCB serves as a stratum. This ensures that each bank is equally represented in the sample. From each SUCB, 3 executives and 3 office bearers are selected and accordingly the total sample size becomes 300. The selection within each stratum (bank) is conducted randomly to ensure unbiased representation of each group (executives and office bearers). This stratified random sampling technique ensures that the sample accurately represents the entire population of SUCBs while maintaining proportional representation of both executives and office bearers. This method enhances the precision and reliability of the insights drawn from the survey.

### *3.2 Data Used in this Study:*

The present study largely relies on primary data collected through a structured questionnaire, developed based on an exhaustive review of literature relevant to the identified objectives. To empirically validate the five variables, the questionnaire includes 13 statements on “Governance,” 14 statements on “Professional Management,” 10 statements on “External Control,” 5 statements on “Managerial Effectiveness,” and 6 statements on “Performance.” These statements are measured on a five-point Likert scale ranging from 5 (Strongly Agree) to 1 (Strongly Disagree). Few semi-structured interviews were also conducted with senior bank professionals to enhance a comprehensive understanding of the interconnected facets under study. Additionally, secondary data on various aspects of financial performance analysis have been comprehensively collected from reports, journals, magazines, books, and website portals. This secondary data is used to complement and corroborate the empirical findings. Relevant statistical data has been procured from the RBI Database on Indian Economy – Primary (Urban) Cooperative Banks' Outlook and the annual reports of the respective scheduled UCBs spread across an eight-year span, from 2014-15 to 2021-22. These records were sourced from the banks' official websites to enrich the research analysis.

### *3.3 Framework for Analysis*

With a focus on the logical and sequential arrangement of data for further statistical analysis, the primary data has been appropriately classified. Descriptive statistics have been applied to analyze respondents' perceptions. The factor analysis results offer valuable insights into the key components of effective governance, professional management, external control, managerial effectiveness, and performance in banking. These insights are crucial for developing robust SEM models to further explore and validate these relationships.

Structural equation modeling (SEM) is a versatile statistical technique that integrates factor analysis with multiple regression analysis. SEM is used to examine complex systems of variables, addressing various interrelated dependencies. It allows for the analysis of direct, indirect, and total relationships between variables, making it a powerful tool for exploring intricate connections within data (Siminica, Cristea, Mirela, & Anghel, 2019). For analyzing the impact of Managerial Effectiveness, defined by governance, professional management, and external control on performance of SUCBs, the study applied Structural Equation Modelling (SEM) by way of highlighting the overall inter-linkages (direct, indirect, and total) between the variables of corporate governance, professional management, external control, managerial effectiveness and performance.

### *3.4 Organization of the Thesis*

The study is structured into five comprehensive chapters.

***Chapter 1: Introduction, Definitions, and Concepts*** - This chapter provides an extensive overview of Urban Cooperative Banks (UCBs) in India, with a particular focus on Scheduled Urban Cooperative Banks. It traces their evolution and growth, elaborates on their regulatory framework, organizational structure, and performance metrics, and discusses the critical issues and challenges they face.

***Chapter 2:*** This chapter critically examines the existing body of literature relevant to the study. The review includes an analysis of publications from various journals, magazines, reports, newspapers, and web portals, providing a well-built foundation for the research. Based on the review of the literature, the research model has been conceptualized and hypotheses have also been framed and described in this chapter.

***Chapter 3:*** Methodology and Scope of the Study - The characteristics and extent of the study are outlined in this chapter. The issue statement, research objectives, methodology, sampling design, tools for collecting data, hypotheses, and the analytical framework used in the study are all described in detail.

***Chapter 4:*** Data Analysis and Interpretation - This chapter is divided into four sections. The first section presents an analysis of the factors influencing managerial effectiveness, focusing on respondents' perceptions of each factor. The second section conducts a component-wise factor analysis. The third section employs Structural Equation Modelling (SEM) to further analyze the data. Finally, the fourth section tests the hypotheses and provides a detailed and descriptive interpretation of the results.

***Chapter 5:*** Summary of Findings and Conclusion - The final chapter summarizes the key findings of the research and draws conclusions. It also offers significant suggestions and policy implications based on the study's outcomes.

# CHAPTER – 4

# DATA ANALYSIS AND INTERPRETATION

**1. Personal Profile of the Respondents**

The personal profiles of the respondents were looked at by the study, and the details are shown in Table 5.1 below:

**TABLE – 5.1**

**Personal Profile of the Respondents**

| Sl. No | Particulars | No. of Respondents | Percentage |
|---|---|---|---|
| **Age-wise Classification** | | | |
| 1. | Less than 35 Years | 52 | 17.33 |
| 2. | 36-50 Years | 88 | 29.33 |
| 3. | 51-60 Years | 122 | 40.67 |
| 4. | Above 60 Years | 38 | 12.67 |
| ***Total*** | | **300** | **100** |
| **Designation (Official/Non-Official)** | | | |
| 1. | Chairman/Board of Directors | 150 | 50.00 |
| 2. | CEOs/Executives/Senior Officials | 150 | 50.00 |
| ***Total*** | | **300** | **100** |
| **Experience (Executives Only)** | | | |
| 1. | Less than 15 Years | 42 | 14.00 |
| 2. | 16-30 Years | 206 | 68.67 |
| 3. | More than 30 Years | 52 | 17.33 |
| | ***Total*** | **300** | **100** |
| | **Tenure of the Board (For BODs only)** | | |
| 1. | 1St Term | 114 | 38.00 |
| 2. | 2nd Term | 146 | 48.50 |
| 3. | 3rd Term and More | 41 | 13.50 |
| | ***Total*** | **300** | **100** |
| 1. | Education | | |
| 2. | Undergraduate | 182 | 60.67 |
| 3. | Postgraduate/CAIIB, CISA | 118 | 39.33 |
| | | **300** | **100** |

*(Source: Primary Data)*

The study provides a detailed analysis of the respondents' personal profiles, highlighting various demographic and professional characteristics. The respondents are categorized by age, designation, experience, board tenure, and education level. Age-wise, a majority are between 51-60 years (40.67%), followed by those aged 36-50 years (29.33%), less than 35 years (17.33%), and above 60 years (12.67%). Regarding designation, there is an even split between Chairmen/Board of Directors and CEOs/Executives/Senior Officials, each comprising 50% of the total respondents. Among the executives, most have 16-30 years of experience (68.67%), with smaller proportions having less than 15 years (14%) and more than 30 years (17.33%) of experience. For Board of Directors, 48.50% are serving their second term, 38% are in their first term, and 13.50% are in their third term or beyond. Educationally, a significant majority (60.67%) are undergraduates, while 39.33% hold postgraduate degrees or professional certifications such as CAIIB and CISA. This comprehensive profile provides insights into the demographic and professional diversity among the respondents.

## 2. Descriptive Analysis of Factors Influencing Managerial Effectiveness

In this study, three factors of Managerial Effectiveness viz., Governance, Professional Management and External Control were analyzed. The attributes with reference to the above mentioned each factor were selected based on an extensive review of prescriptive, conceptual, practitioner, and empirical literature on the governance of Urban Cooperative Banks (UCBs) in India. In order to empirically validate the above-mentioned attributes relating to the different facets of governance, a part of the questionnaire containing statements on a five-point Likert scale ranging from 5 to 1 (where 5 stands for “Strongly Agree” and 1 stands for “Strongly Disagree”) become the tool for measurement. Below are the survey statistics in their entirety:

### *2.1 Analysis of Governance*

**TABLE – 5.2**

**Transparency and Disclosure Practices (Information)**

| Statements | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree | Total | Mean Score |
|---|---|---|---|---|---|---|---|
| Preparation and disclosure of audited annual financial statements in accordance with the (GAAP). | 5 (1.67) | 238 (79.33) | 55 (18.33) | 0 (0.00) | 2 0.67 | 300 (100) | 3.81 |
| Disclosure of capital adequacy position on a regular basis. | 144 (48.00) | 131 (43.67) | 15 (5.00) | 10 (3.33) | 0 (0.00) | 300 (100) | 4.36 |
| Disclosure of information related to its asset quality. | 97 (32.33) | 177 (59.00) | 23 7.67 | 0 (0.00) | 3 (1.00) | 300 (100) | 4.22 |
| Disclosure of information on its exposures | 147 (49.00) | 115 (38.33) | 22 (7.33) | 16 (5.33) | 0 (0.00) | 300 (100) | 4.31 |
| Disclosure of information about its branch network | 113 (37.67) | 171 (57.00) | 9 (3.00) | 2 (0.67) | 5 (1.67) | 300 (100) | 4.28 |
| Disclosure of information related to customer service, such as grievance redressal mechanisms and customer complaints. | 146 (48.67) | 120 (40.00) | 24 (8.00) | 10 (3.33) | 0 (0.00) | 300 (100) | 4.34 |

*Source: Field survey. N.B. Figures in the parenthesis represent the percentage of total respondents and responses*

The high mean score and strong agreement among the respondents (48.00% strongly agree) reflect the importance of disclosure of capital adequacy. Regular reporting of capital adequacy ensures that banks meet regulatory requirements and provide a transparent view of their financial health. Transparency in customer service, including grievance redressal mechanisms and customer complaints well-received with 48.67% of agreement (mean 4.34) and this indicates a strong focus on customer-centric practices. Disclosing information on exposures, such as large exposures and sector-wise exposure, is important for risk management and regulatory compliance. The high acceptance level of 49.00% of the respondents with the mean value of 4.31 reveals the significance of transparency in risk-related information which is vital for assessing the bank's risk profile.

Providing information about the branch network, including locations and services, helps customers and stakeholders understand the bank's operational scope has obtained substantial agreement (57.00% agree) reflects the importance of this practice in maintaining operational transparency. Strength and Importance: Disclosure of asset quality, including classification of assets and provisioning norms, is essential for assessing the bank's financial health and risk management practices as indicated by 4.22 mean score. As this is a fundamental practice, disclosure of audited annual financial statements in accordance with the GAAP receives lowest mean score of 3.81, but with major degree of acceptance of 79.33 per cent.

**TABLE – 5.3**

**Risk Management and Internal Control**

| Statements | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree | Total | Mean Score |
|---|---|---|---|---|---|---|---|
| Check on the work of the internal and external auditors and independent check on the information received from management. | 134 (44.67) | 138 (46.00) | 26 (8.67) | 2 (0.67) | 0 (0.00) | 300 (100) | 4.35 |
| The inter-branch accounts/branch adjustment accounts or bank reconciliation statements. | 110 (36.67) | 175 (58.33) | 5 (1.67) | 10 (3.33) | 0 (0.00) | 300 (100) | 4.28 |
| Effective use of internal and external auditors, compliance and legal functions and overseeing banks' risk management and control systems. | 96 (32.00) | 172 (57.33) | 30 (10.00) | 2 (0.67) | 0 (0.00) | 300 (100) | 4.21 |
| Risk management committee oversees the bank's risk management system/risk policy | 63 (21.00) | 199 (66.33) | 36 (12.00) | 2 (0.67) | 0 (0.00) | 300 (100) | 4.08 |

*Source: Field survey. N.B. Figures in the parenthesis represent the percentage of total respondents and responses*

Emphasis on Auditors and Control Functions (4.35) reflects a strong emphasis on auditors and control functions, indicating their critical role in governance and trust. Accurate maintenance of inter-branch accounts and reconciliation statements is essential for operational efficiency and financial accuracy. The mean score (4.28) indicates a high level of confidence in inter-branch accounts and reconciliation highlighting their importance in maintaining accurate financial records. Utilizing auditors effectively ensures robust oversight of risk management and control systems, which is essential for identifying and mitigating risks. The mean score (4.21) reveals that this practice is well-regarded, though slightly lower than others, indicating an area for potential enhancement. Oversight by risk management committees is vital for ensuring that risk policies are implemented properly and that various risks are managed effectively. The lower mean score (4.08) and higher neutrality (12.00%) indicate that while positively acknowledged, this area might benefit from strengthened oversight practices.

**Table – 5.4**

**Board Characteristics**

| Statements | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree | Total | Mean Score |
|---|---|---|---|---|---|---|---|
| Board of management includes independent directors with special knowledge and practical experience. | 142 (47.33) | 138 (46.00) | 14 (4.67) | 6 (2.00) | 0 (0.00) | 300 (100) | 4.39 |
| Attendance and participation of professional directors in audit committee meetings | 96 (32.00) | 173 (57.67) | 31 (10.33) | 0 0.00) | 0 (0.00) | 300 (100) | 4.22 |
| Decision-making processes are open to scrutiny (Due diligence and safeguards). | 115 (38.33) | 167 (55.67) | 12 (4.00) | 4 (1.33) | 2 (0.67) | 300 (100) | 4.30 |

*Source: Field survey: N.B. Figures in the parenthesis represent the percentage of total respondents and responses*

Independent directors bring valuable expertise and unbiased perspectives, which are crucial for strategic decision-making and effective governance. The highest mean score in this category (4.39) and strong agreement (47.33% strongly agree) indicates the importance of having qualified independent directors on the board. Ensuring rigorous and transparent decision-making processes is essential for maintaining accountability and trust in the bank's operations. The mean score (4.30) reflects strong trust in the governance practices related to decision-making, suggesting that these practices are well-established and effective. Active participation of professional directors in audit committees ensures thorough oversight and accountability in financial and operational matters. The mean score (4.22) indicates a positive perception, though slightly lower than other aspects, highlighting the need for continued focus on active engagement and participation.

The analysis indicates that risk management and internal control are the most preferred elements, as evidenced by most responses. This preference can be attributed to the influence of regulatory bodies such as the Registrar of Cooperative Societies (RCS), audit authorities, and licensing and regulatory entities like the Reserve Bank of India (RBI), which have played a crucial role in enhancing and streamlining the governance processes. Furthermore, the characteristics of the banks' boards and the mechanisms for information flow are also critical. Without the active participation of the board and the symmetrical flow of information, the governance process cannot be fully effective in achieving its objectives.

### *2.2 Analysis of the Various Elements of Professional Management*

The five attributes relating to Professional Management is analysis and provided in the following tables:

**TABLE – 5.5**

**Accounting Reporting Auditing and Supervision**

| Statements | Strongly Agree | Agree | Neutral | Dis-Agree | Strongly Disagree | Total | Mean Score |
|---|---|---|---|---|---|---|---|
| The CEO certifies prudently all reports | 198 (66.00) | 94 (31.30) | 6 (2.00) | 2 (0.67) | 0 (0.00) | 300 (100) | 4.61 |
| Inspection and quality of audit | 88 (29.33) | 189 (63.00) | 21 (7.00) | 2 (0.67) | 0 (0.00) | 300 (100) | 4.20 |
| Appointment of internal auditors | 142 (47.33) | 137 (45.67) | 17 (5.67) | 4 (1.33) | 0 (0.00) | 300 (100) | 4.36 |
| Accountability policy approved by the BOD –BoDs | 80 (26.67) | 178 (59.33) | 34 (11.33) | 8 (2.67) | 0 (0.00) | 300 (100) | 4.05 |
| Accountability policy approved by the BOD – Staff | 123 (41.00) | 150 (50.00) | 21 (7.00) | 6 (2.00) | 0 (0.00) | 300 (100) | 4.26 |
| Information and cyber-security policy | 181 (60.33) | 108 (36.00) | 11 (3.67) | 0 (0.00) | 0 (0.00) | 300 (100) | 4.57 |

*Source: Field survey. N.B. Figures in the parenthesis represent the percentage of total respondents and responses*

The highest mean score (4.61) highlights the critical role of the CEO in ensuring the accuracy and reliability of reports and schedules presented to the Board and AGM. Accurate certification by the CEO is essential for maintaining transparency, accountability, and trust in the bank's operations. In today's digital era, a comprehensive information and cyber-security policy is crucial for protecting sensitive data and ensuring the integrity of banking operations. The high mean score of 4.57 indicates a strong agreement (60.33% strongly agree, 36.00% agree) on the importance of having a vigorous information and cyber-security policy approved by the Board of Directors (BOD). It mitigates the risks associated with cyber threats and enhances the overall security framework of the bank.

Objective appointments of internal auditors ensure unbiased and independent audits. This practice is fundamental for identifying and addressing internal control weaknesses, ensuring compliance with regulatory requirements, and enhancing the credibility of financial reporting. This statement's high mean score of 4.36 (47.33% strongly agree, 45.67% agree) reflects confidence in the objective appointment of internal auditors. The high agreement (41.00% strongly agree, 50.00% agree) underscores the importance of having a BOD-approved accountability policy for detecting staff-related fraud and irregularities. The mean score of 4.20 on current system of audit in UCBs reflects positive perceptions (29.33% strongly agree, 63.00% agree) of the current audit structure's professionalism and quality. While studying the existence of accountability policy approved by the BOD for detecting serious lapses, irregularities/frauds by the senior management and board of directors, the slightly lower mean score (26.67% strongly agree, 59.33% agree) suggests that while this area is positively viewed, it may require additional focus compared to other aspects.

**TABLE – 5. 6**

**Compliance and Regulatory Framework**

| Statements | SA | A | N | DA | SDA | Mean |
|---|---|---|---|---|---|---|
| Compliance department/officer exists and reports directly to the board/CEO. | 149 (49.67) | 128 (42.67) | 23 (7.67) | 0 (0.00) | 0 (0.00) | 4.20 |
| Management of the bank has enough frameworks and ensures compliance with all applicable laws. | 96 (32.00) | 187 (62.33) | 13 4.33) | 4 (1.33) | 0 (0.00) | 4.22 |

*Source: Field survey. N.B. Figures in the parenthesis represent the percentage of total respondents and responses*

Direct reporting of the compliance officer to the board/CEO ensures accountability and swift action on compliance issues. This practice ensures that compliance is given due importance and that any issues are addressed promptly at the highest level, reinforcing good governance practices. The mean figure of 4.20 reflects the same with strong consensus among the respondents that indicates its critical role. Effective compliance frameworks are crucial for regulatory adherence and risk management. Strong compliance mechanisms safeguard the bank against legal and financial risks, ensuring sustainable and ethical operations. The high mean score (2.220 and agreement (SA: 32.00%, A: 62.33%) highlight its importance in professional management.

**TABLE – 5.7**

**Human Resource Policy**

| Statements | SA | A | N | DA | SDA | Mean |
|---|---|---|---|---|---|---|
| Board is approving HR Policy consisting of qualifications, selection, transfer, training, remuneration etc. exists in the bank. | 163 (54.33) | 128 (42.67) | 7 (2.33) | 2 (0.67) | 0 (0.00) | 4.29 |
| Bank is having CEO with board approved qualifications. | 137 (45.67) | 148 (49.33) | 13 (4.33) | 2 (0.67) | 0 (0.00) | 4.39 |

*Source: Field survey. N.B. Figures in the parenthesis represent the percentage of total respondents and responses*

Structured HR practices are vital for building a competent workforce, contributing to the overall efficiency and effectiveness of the bank’s operations. With a high mean score (4.29) and strong agreement among the respondents, this highlights the significance of comprehensive HR policies in professional management. A qualified CEO approved by the board ensures that management of the bank is competent and aligned with the bank's strategic objectives. The high consensus with the mean value of 4.39 underscores the critical role of qualified and board-approved leadership in UCBs.

**TABLE – 5.8**

**Training and Capacity Building**

| | SA | A | N | DA | SDA | Mean |
|---|---|---|---|---|---|---|
| Regular training is provided by the bank to BoDs. | 105 (35.00) | 135 (45.00) | 56 (18.67) | 4 (1.33) | 0 (0.00) | 4.11 |
| Regular training provided by the bank to Employees | 100 (33.33) | 186 (62.00) | 10 (3.33) | 4 (1.33) | 0 (0.00) | 4.25 |

*Source: Field survey. N.B. Figures in the parenthesis represent the percentage of total respondents and responses*

Continuous training ensures that employees are updated with the latest skills and knowledge, enhancing their performance and the bank's overall productivity. Educated and well-informed board of directors is also essential for sound governance and strategic decision-making, contributing to the overall professional management of the bank. While the mean score (4.25) of employee training emphasizes its importance, the training and dissemination for board members has the lowest mean score of the section (4.11) that tells the current existence of low level of such training activities.

**TABLE – 5.9**

**Continuous Improvement**

| Statements | SA | A | N | DA | SDA | Mean |
|---|---|---|---|---|---|---|
| Encouraging innovation, adopting best practices and staying well-informed of emerging trends and technologies. | 140 (46.67) | 132 (44.00) | 22 (7.33) | 6 (2.00) | 0 (0.00) | 4.31 |
| Review processes and policies to identify areas for enhancement. | 117 (39.00) | 166 (55.33) | 12 (4.00) | 5 (1.67) | 0 (0.00) | 4.28 |

*Source: Field survey. N.B. Figures in the parenthesis represent the percentage of total respondents and responses*

Emphasizing a culture of innovation ensures that the bank stays relevant and can adapt to industry changes, thereby enhancing long-term sustainability. This statement reflects the importance of innovation and continuous improvement in maintaining competitiveness and operational efficiency (Mean: 4.31; SA: 46.67%, A: 44.00%). Regular reviews of processes and policies are essential for identifying and addressing inefficiencies. The high agreement levels indicate that this practice is crucial for ongoing improvements. Systematic reviews contribute to operational excellence and regulatory compliance, which are key components of professional management as opined with the mean score of 4.28.

From the table, it is observed that the direct reporting of CEOs to the board is a prominent determinant of professional management in UCBs, followed by the importance of information security. The significance of HR policies is also strongly indicated, and a robust compliance framework is another critical contributor. The survey results reveal that employees and the board of directors are essential for ensuring professionalism in UCB management, as agreed upon by 53.5% of respondents. This is followed by Compliance and Regulatory Framework (52.5%), Continuous Improvement (49.19%), Accounting Reporting, Auditing, and Supervision (47.56%), and HR Policy (46%).

The analysis infers that training and capacity building are crucial to ensuring professionalism. These elements help maintain transparency, facilitate quick decision-making, provide satisfactory services, and enable effective reporting of internal activities to external supervisory and regulatory authorities. Thus, professionalism needs to be cultivated to satisfy both internal operational needs and external regulatory requirements. This can be achieved through continuous skill development programs for employees and board members, ensuring their capabilities are consistently enhanced to meet evolving demands.

### *2.3 Analysis of External Control*

The survey data provides insights into the perceptions of respondents on the effectiveness of external control by the Reserve Bank of India (RBI) and the Registrar of Cooperative Societies (RCS) in managing Urban Cooperative Banks (UCBs). Below is a critical evaluation and descriptive interpretation of the findings.

**<u>TABLE – 5.10</u>**

**RBI Control**

| Statements | SA | A | N | SDA | DA | Total |
|---|---|---|---|---|---|---|
| Regards in exercising of corporate governance in the banks. | 153 (51.00) | 123 (41.00) | 20 (6.67) | 4 (1.33) | 0 (0.00) | 300 (100) |
| Both off-site and on-site examination and surveillance is really vigilant. | 118 (39.33) | 165 (55.00) | 15 (5.00) | 2 (0.67) | 0 (0.00) | 300 (100) |
| Supervising and regulating the bank through CRR/SLR/Loan and Investment Exposure Standards/ KYC/ AML etc. | 144 (48.00) | 143 (47.67) | 5 (1.67) | 8 (2.67) | 0 (0.00) | 300 (100) |
| Highest standards of regulatory scrutiny to prevent the banking distress is satisfactory | 158 (52.6) | 127 (42.33) | 13 (4.33) | 2 (0.67) | 0 (0.00) | 300 (100) |
| Amendment in BR Act, application of SARFESI Act etc. to the effective management. | 138 (46.00) | 134 (44.67) | 26 (8.67) | 2 (0.67) | 0 (0.00) | 300 (100) |
| RBI does not enjoy the same powers to regulate UCBs as in case of banking companies, especially in matters relating to governance and resolution. | 46 (15.33) | 140 (46.33) | 64 (21.33) | 44 (14.67) | 6 (2.00) | 300 (100) |
| The duality of control/regulation is one of the main hindrances for the more effective management. | 84 (28.00) | 102 (34.00) | 47 (15.67) | 51 (17.00) | 16 (5.33) | 300 (100) |
| **Total** | **841 (40.05)** | **934 (44.48)** | **190 (9.05)** | **113 (5.38)** | **22 (1.05)** | **2100 (100)** |

*Source: Field survey. N.B. Figures in the parenthesis represent the percentage of total respondents and responses*

Effective corporate governance under RBI's purview helps in mitigating risks, ensuring regulatory compliance, and fostering trust among stakeholders, thereby enhancing managerial effectiveness. Many respondents (92%) agree or strongly agrees that the RBI exercises high standards of corporate governance in banks. This reflects a strong confidence in RBI's governance framework, which is essential for ensuring transparency, accountability, and stability within UCBs. Vigilant supervision by RBI ensures early detection of issues and prompt corrective actions, contributing to the sound management of UCBs. A significant 94.33% of respondents acknowledge the vigilance of RBI's off-site and on-site examinations and surveillance. This suggests that RBI's monitoring mechanisms are robust and are perceived as reliable in maintaining regulatory oversight.

Adherence to regulatory standards is crucial for financial stability, preventing malpractices, and ensuring the bank's operations are within legal bounds, thus promoting managerial effectiveness that has been supported with 95.67% of respondents believe that RBI's supervision through CRR, SLR, KYC, AML, etc., is effective. This indicates a strong confidence in the regulatory standards set by RBI. Regulatory Scrutiny to prevent banking distress helps in pre-empting crises and ensures the bank remains resilient, thereby enhancing the effectiveness of management. A high 94.93% of respondents agree that RBI's regulatory scrutiny is satisfactory in preventing banking distress. This underscores the importance of stringent oversight in maintaining the health of UCBs.

Legislative reforms enhance the regulatory framework, providing UCBs with better tools for recovery and resolution, thus supporting effective management. There are 90.67% of respondents believe that recent reforms, like amendments in the BR Act and the application of SARFAESI Act, are helpful. This shows a positive perception of the legislative and policy changes aimed at improving UCB management. While analyzing regulatory powers limitations, only 61.66% of respondents agree that RBI does not enjoy the same powers to regulate UCBs as it does for banking companies. This mixed response indicates an awareness of regulatory limitations. The acknowledgment of these limitations suggests a need for strengthening RBI's regulatory powers to ensure more effective management of UCBs. Streamlining regulatory control can eliminate inefficiencies and conflicts, thereby enhancing managerial effectiveness in UCBs. A total of 62% of respondents agree that dual control/regulation is a hindrance to effective management. This highlights the challenges posed by overlapping jurisdictions.

**TABLE – 5.11**

**RCS Control**

| Statements | SA | A | N | SDA | DA | Total |
|---|---|---|---|---|---|---|
| The RCS/CRCS and the cooperative department officers are professionally qualified | 27 (9.00) | 135 (45.00) | 108 (36.00) | 24 (8.00) | 6 (2.00) | 300 (100) |
| The role of RCS/CRCS ensures proper control (through administrative, elections, auditing related matters) | 48 (16.00) | 163 (54.33) | 63 (21.00) | 24 (8.00) | 2 0.67) | 300 (100) |
| Auditors appointed from the panel of RCS/CRCS are professionally competent and rigorously trained | 71 (23.67) | 118 (39.33) | 83 (27.67) | 26 (8.67) | 2 (0.67) | 300 (100) |
| **Total** | **146 (16.22)** | **416 (46.22)** | **254 (28.22)** | **74 (8.22)** | **10 (1.11)** | **900 (100)** |

*Sources: Field survey. N.B. Figures in the parenthesis represent the percentage of total respondents and responses*

Professional qualification and competence of regulatory officers are crucial for effective supervision and control, impacting the management quality of UCBs. Only 54% of respondents agree that RCS officers are professionally qualified. The significant neutral response (36%) indicates uncertainty about the competence of RCS officers. Effective administrative control ensures that UCBs comply with cooperative and legal requirements, contributing to managerial effectiveness. A majority (70.33%) agree that RCS plays a proper role in controlling banks through administrative, election, and auditing matters. This reflects the RCS's control mechanisms. Competent auditors are essential for accurate financial reporting and auditing, which are critical for transparency and effective management. However, a notable 27.67% are neutral, indicating the respondents are having reservations about their training and competence.

Table-5.11 delineates the elements of external control under two primary categories: RBI and RCS control. The data indicates that a significant portion of respondents (40%) strongly agree on the importance of RBI control, followed by RCS control. Additionally, approximately 45% of respondents agree on the effectiveness of both RBI and RCS control mechanisms.

From this analysis, it can be inferred that external control is a crucial criterion for ensuring managerial effectiveness and performance in Urban Cooperative Banks (UCBs). Compared to agricultural credit cooperatives, the regulatory and supervisory roles of the RBI hold greater significance in UCBs, followed by the control exercised by the RCS. The inherent characteristics of cooperatives often lead to challenges in internal governance and operational streamlining. In this context, external control mechanisms become essential. Regulatory and supervisory bodies such as the RBI and RCS play pivotal roles in ensuring that UCBs operate efficiently and effectively. These bodies provide oversight and enforce compliance, which are key indicators of successful performance in UCBs in India. Therefore, the roles of controlling, supervising, and regulating bodies like the RBI and RCS are indispensable in enhancing the managerial effectiveness and overall performance of Urban Cooperative Banks. This underscores the importance of robust external control mechanisms in maintaining the integrity and efficiency of cooperative banking institutions.

### *2.4 Analysis of Managerial Effectiveness*

**TABLE – 5.12**

**Frequency Distribution of Managerial Effectiveness**

| Statements | SA | A | N | DA | SDA | Total |
|---|---|---|---|---|---|---|
| Effectively management of costs, as indicated by the proportion of total expenses relative to total income. | 53 (17.67) | 70 (23.33) | 50 (16.67) | 104 (34.67) | 23 (7.67) | 300 (100) |
| Strong competence in utilizing available deposits by effectively converting them into high-earning | 44 (14.67) | 80 (26.67) | 75 (25.00) | 58 (19.33) | 43 (14.33) | 300 (100) |

| | | | | | | |
|---|---|---|---|---|---|---|
| advances. | | | | | | |
| Expertise in generating income from non-interest sources - ability to diversify income streams | 80 (26.67) | 100 (33.33) | 45 (15.00) | 40 (13.33) | 35 (11.67) | 300 (100) |
| Operating efficiently with a smaller workforce, reflecting the effectiveness of its operational management. | 88 (29.33) | 97 (32.33) | 33 (11.00) | 42 (14.00) | 40 (13.33) | 300 (100) |
| Adequate buffer of own funds against risk-weighted assets, demonstrating efficiency in risk management and capital adequacy. | 135 (45.00) | 114 (38.00) | 26 (8.67) | 15 (5.00) | 10 (3.33) | 300 (100) |
| **Total** | **400 (26.67)** | **461 (30.73)** | **229 (15.27)** | **259 (17.27)** | **151 (10.07)** | **1500 (100)** |

*Sources: Field survey. N.B. Figures in the parenthesis represent the percentage of total respondents and responses*

Only 41% of respondents agree or strongly agree that the bank effectively manages its costs, while 42.34% disagree or strongly disagree. This split indicates a substantial concern about cost management within UCBs. Effective cost management is essential for profitability and sustainability. The relatively high disagreement suggests a need for UCBs to implement better cost control measures and improve financial efficiency. Similarly, only 41.34% agree or strongly agree, while 33.66% disagree or strongly disagree, and a notable 25% remain neutral and it indicates that the mixed perceptions on the bank's competence in utilizing deposits efficiently. Effective deposit utilization is crucial for income generation. The significant neutral and negative responses suggest that UCBs need to enhance their strategies for converting deposits into profitable advances.

Diversification of income streams is vital for financial stability and reducing reliance on interest income. The positive response suggests that UCBs are relatively effective in this area, but there is still room for improvement. A combined 60% of respondents agree or strongly agree that the bank is proficient in diversifying income, with only 25% in disagreement. This indicates a positive perception of the bank's ability to generate income from non-interest sources. A significant 61.66% of respondents agree or strongly agree on the bank's operational efficiency with a smaller workforce, while 27.33% disagree or strongly disagree. Effective operational efficiency often leads to cost savings and improved productivity. The data indicates that many respondents see the UCBs as managing their human resources effectively, although there is a notable percentage that disagrees.

An overwhelming 83% of respondents agree or strongly agree that the bank maintains an adequate buffer of its own funds against risk-weighted assets. This strong positive response indicates high confidence in the bank's risk management and capital adequacy practices. Maintaining sufficient capital safeguard is critical for absorbing potential losses and ensuring financial stability. This area appears to be a strong point for UCBs reflecting, effective risk management strategies. Table-12 reveals the frequency distribution of responses across the various elements considered for managerial effectiveness. It can be inferred that managerial effectiveness is one of the complex propositions in UCBs and even in other cooperatives for which the responses obtained are quite discrete as compared to other broad parameters as discussed above.

### *2.5 Analysis of Performance*

**TABLE – 5.13**

**Frequency Distribution of Elements of Performance**

| Statements | SA | A | N | DA | SDA | Total |
|---|---|---|---|---|---|---|
| Effective governance and Professional management practices significantly enhances the financial performance (NIM). | 135 (45.00) | 130 (43.33) | 20 (6.67) | 10 (3.33) | 5 (1.67) | 300 (100) |
| External control and oversight contribute to thereby positively impacting the NIM. | 134 (44.67) | 139 (46.33) | 12 (4.00) | 12 (4.00) | 3 (1.00) | 300 (100) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Effective governance and Professional management practices significantly enhances the financial performance (ROA). | 53 (17.67) | 70 (23.33) | 50 (16.67) | 104 (34.67) | 23 (7.67) | 300 (100) |
| External control and oversight contribute to thereby positively impacting the ROA. | 44 (14.67) | 80 (26.67) | 75 (25.00) | 58 (19.33) | 43 (14.33) | 300 (100) |
| **Total** | 366 (30.50) | 419 (34.92) | 157 (13.08) | 184 (15.33) | 74 (6.17) | 1200 (100) |

*Sources: Field Survey. N.B. Figures in the parenthesis represent the percentage of total respondents and responses*

Table-5.13 presents the frequency distribution of responses regarding the elements encompassed within the broad parameter of Performance. An analysis of the table indicates that approximately 45% of respondents either highly agree or agree that external control positively impacts both NIM and ROA. Additionally, around 35% of the total responses reflect agreement with the elements considered under the performance parameter in this study. As a significant element of the analysis, the factor of External Control shifts focusses to the influence of external oversight viz, RBI and RCS on financial performance. With 44.67% strongly agreeing and 46.33% agreeing, it shows a significant consensus that external regulation and supervision are beneficial.

This suggests that external checks and balances, such as regulatory compliance and audits, play a vital role in maintaining and enhancing the financial health of UCBs. These findings suggest that external control plays a significant role in enhancing the performance metrics of UCBs, as evidenced by the respondents' perceptions. The statements regarding the impact of effective governance and professional management practices, as well as external control and oversight on NIM (Net Interest Margin), received high mean scores of 4.27 and 4.30, respectively. This indicates a strong agreement among respondents that these practices positively influence NIM. The statements related to the impact of these practices on ROA (Return on Assets) had lower mean scores of 3.09 and 3.08. This suggests that respondents are more neutral or divided in their perceptions regarding the influence of governance, management practices, and external control on ROA compared to NIM.

### *3. Factor Analysis*

Factor analysis is a statistical method employed to uncover the underlying variables, or factors, that elucidate the pattern of correlations among a set of observed variables. In the context of banking, Principal Component Analysis (PCA) is utilized as the extraction method to reduce the dataset's dimensionality. PCA transforms the original variables into a new set of uncorrelated variables, known as components, which explain the maximum variance in the data. This transformation helps to identify the critical factors that influence various aspects of banking, such as governance, professional management, external control, managerial effectiveness, and performance. By distilling the data into principal components, PCA aids in understanding the key drivers and underlying structure of the observed phenomena, facilitating more informed decision-making and strategic planning within the banking sector.

The rotation method employed is Varimax with Kaiser Normalization, which serves to simplify the interpretation of the factor loadings. Varimax rotation maximizes the variance of squared loadings of a factor across variables, effectively distributing the variance more evenly among factors and making the resulting components more interpretable. This orthogonal rotation method minimizes the number of variables that have high loadings on each factor, thereby enhancing the clarity and distinctiveness of the factors. Kaiser normalization ensures that each component retains equal weight, further aiding in the balanced representation of the factors. Together, these techniques refine the factor analysis results, making it easier to identify and interpret the significant factors affecting governance, professional management, external control, managerial effectiveness, and performance in the banking industry. This methodological rigor allows for a clearer understanding of the complex interrelationships within the data, providing valuable insights for enhancing organizational practices and policies.

The factor analysis results offer valuable insights into the key components of effective governance, professional management, external control, managerial effectiveness, and performance in banking. These insights are crucial for developing robust SEM models to further explore and validate these relationships.

### *3.1 Factor Analysis on Governance*

The factor analysis on governance identified four critical components that cumulatively explain 62.83% of the total variance in the dataset. These components include financial disclosures and transparency, independence and effectiveness of internal controls, robust audit and risk management frameworks, and customer service and branch network management. The impact of these components is significant, influencing stakeholder trust, regulatory compliance, risk mitigation, customer satisfaction, and operational efficiency.

### *3.2 Factor Analysis on Professional Management*

The factor analysis on professional management identified four key components that together account for 64.854% of the variance in the dataset. These components include accountability and audit quality, continuous improvement and training, robust HR policies and qualified leadership, and CCO (Chief Compliance Officer) certification and compliance framework. The impact of these components is substantial, contributing to enhanced transparency, innovation, skill enhancement, strategic leadership, and compliance within the organization.

### *3.3 Factor Analysis on External Control*

The factor analysis on external control identified four main components that collectively explain 83.174% of the variance in the dataset. These components are RBI's supervisory and regulatory functions, which account for 40.508% of the variance, regulatory reforms and scrutiny, accounting for 20.658%, the role of cooperative department officers and RCS/CRCS, contributing 11.786%, and the challenges of dual control/regulation, adding 10.222%. The impact of these components is significant, leading to improved financial stability, enhanced bank management, higher governance standards, and greater efficiency in regulatory oversight.

### *3.4 Factor Analysis on Managerial Effectiveness*

The factor analysis on managerial effectiveness and performance revealed key insights. For managerial effectiveness, two main components were identified, accounting for 43.57% of the variance: operational competence (22.839%) and cost and risk management (20.717%). These components significantly impact profitability, operational efficiency, and financial stability and risk management.

### *3.5 Factor Analysis on Performance*

The factor analysis on performance identified two main components that account for 68.968% of the variance in the dataset. The first component, governance and professional management practices, explains 40.883% of the variance, while the second component, the impact of external control mechanisms, accounts for 28.085%. These components play a crucial role in influencing key performance indicators such as net interest margin (NIM) and return on assets (ROA). Additionally, they contribute to maintaining financial discipline and enhancing operational resilience. ***(All the computed values of factor analysis are provided in the Appendix - I)***

## 4. Analysis through Structural Equation Modelling (SEM)

The extracted factors from the factor analysis serve as latent variables in Structural Equation Modelling (SEM), a powerful statistical technique used to test and estimate the relationships between observed variables and latent constructs. By incorporating these factors into SEM, the current research evaluates a comprehensive model that delineates the hypothesized relationships within Scheduled Urban Cooperative Banks (SUCBs). This approach enables a nuanced understanding of how various elements such as governance, professional management, and external control influence managerial effectiveness and overall performance.

By leveraging the latent variables extracted from the factor analysis, SEM allows for the exploration of both direct and indirect effects. For instance, effective governance might directly enhance managerial effectiveness and indirectly boost performance by fostering a culture of accountability and transparency. Similarly, professional management practices may directly impact performance through efficient operations and risk management, while external control mechanisms may exert an indirect influence by ensuring compliance and stability. Through SEM, the study rigorously tests these complex interdependencies and pathways, providing a holistic view of the operational dynamics and performance determinants in SUCBs. This comprehensive modelling approach is instrumental in identifying key leverage points for policy interventions and strategic improvements within the sector.

Structural Equation Modeling (SEM) was used in the study to analyze the effect of Managerial Effectiveness—which is defined by governance, professional management, and external control—on SUCB performance. The study has used the Structural Equation Modeling (SEM) method to emphasize the overall inter-linkages (direct, indirect, and total) between the variables of corporate governance, professional management, external control, managerial effectiveness, and performance. This is a multifaceted statistical research technique that combines multiple regression analysis and factor analysis. The SEM technique is used to evaluate complicated systems of variables, having numerous inter-correlated connections. These encompass both direct links between variables, as well as indirect, and total ones (Siminica, et al. 2019).

The relevance of employing Structural Equation Modelling (SEM) for this analysis is substantiated by similar studies that focus on comparable dimensions. Notably, the references include the works of Mbegu, et al. (2023), Smuda-Kocoń, (2019), TeferiErena, et al., Musallam (2024) and Ouni, et al. (2022). These studies collectively demonstrate the efficacy of SEM in examining the intricate relationships between governance, management practices, external control, and financial performance. They provide robust empirical evidence that supports and aligns well with the objectives and statements presented in the current study, highlighting SEM's capability to analyse complex interdependencies and yield comprehensive insights into organizational dynamics.

Structural Equation Modelling (SEM) is a versatile method widely employed in both observational and experimental research across disciplines such as social and behavioural sciences, business, and beyond. Its definition proves challenging without recourse to technical terms, as SEM represents a statistical technique that merges aspects of regression analysis with confirmatory factor analysis. Central to SEM is the construction of a model that illustrates how different facets of a phenomenon are theorized to causally relate to one another. These models are often depicted graphically with arrows, denoting causal pathways. The structural formulations in SEM imply specific expected relationships among observed variables. This framework enables researchers to utilize these relationships to estimate the magnitudes of hypothesized effects and to scrutinize whether the observed data conform to the theoretical underpinnings of the model. In this study, SEM is applied using available data on selected parameters, drawing insights from a diagram (Fig. 2) and statistical estimates generated by the model. Through detailed SEM analysis, the study evaluates hypotheses, determining whether the observed data provide support for the formulated hypotheses.

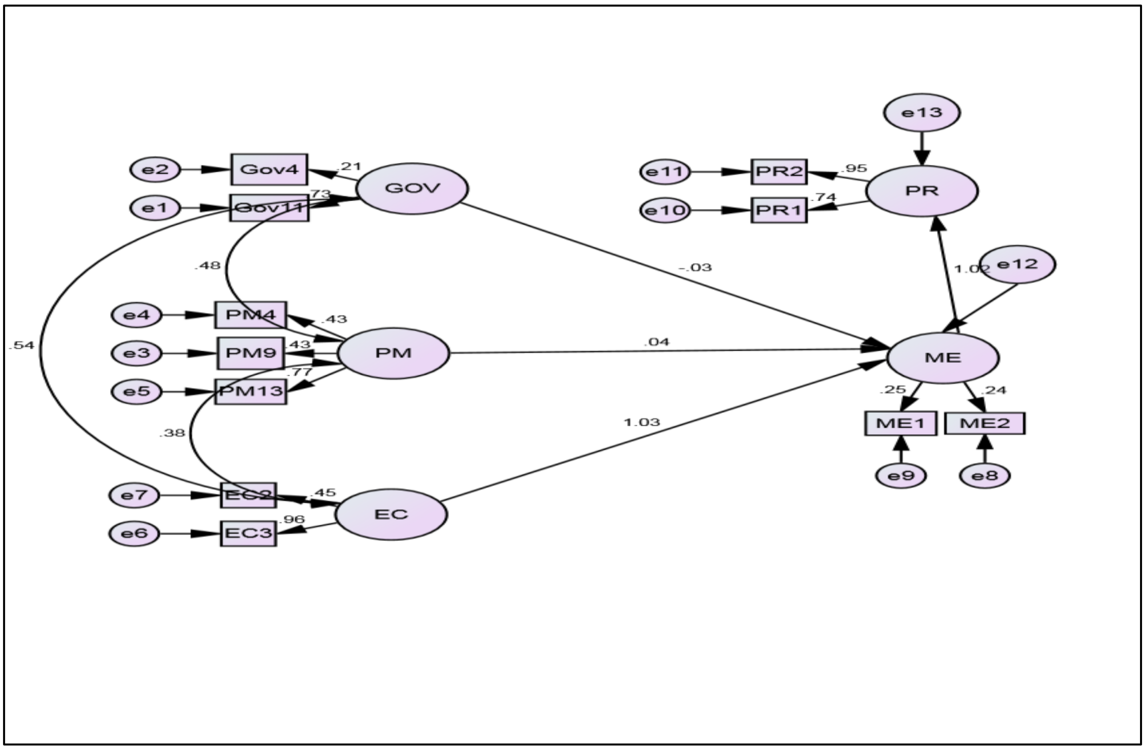



**Figure-2 Diagrammatic representation of SEM**

It is able to understand for the analysis that the notable variations in parameter estimates, where some are highly significant while others are not. Specifically, two parameters stand out as significantly different from zero. Interpreting these estimates is generally straightforward, with the exception of the relationship between Managerial Effectiveness (ME) and Governance (GOV). For instance, ME decreases by 0.015 units for each 1-unit increase in GOV. Conversely, ME increases by 0.036 units for every 1.00-unit rise in Professional Management (PM). Furthermore, ME increases significantly by 0.362 units for every 1.00-unit increase in External Control (EC).

Furthermore, the statistical result in terms of Performance (PR) shows a substantial increase of 2.298 units with each 1.00-unit increase in ME, which is also highly significant. The correlation structure among the errors is assessed using AMOS, yielding significant results. In summary, while most parameter estimates provide clear interpretations, the relationship between ME and GOV requires further scrutiny due to its nuanced implications. The significant findings emphasize the utility of SEM in discerning relationships among variables and error terms, crucial for validating theoretical models and hypotheses in empirical research ***(Regression Results and Default Models Provided in Appendix - II).***

**TABLE – 5.14**

**Fit Statistics of the Measurement Model**

| Fit statistics | Recommended | Obtained |
|---|---|---|
| Chi-square | - | 277.509 |
| d.f | - | 56 |
| Chi-square Significance | Less than 0.05 | 0.000 |
| CMIN/d.f | A value close to 1 and not exceeding 5 indicates a good fit. A value less than 1 indicates an over-fit of the model. | 4.955 |
| **GFI (Goodness of Fit Index)** | The GFI value is always less than or equal to 1. A value close to 1 indicates a perfect fit. | 0.839 |
| **AGFI (Adjusted Goodness of Fit Index)** | The AGFI value is bounded above by 1 and is not bounded by 0. A value close to 1 indicates a perfect fit. | 0.713 |
| **CFI (Comparative Fit Index)** | The CFI value is between 0 and 1. A value close to 1 indicates a very good fit. | 0.936 |
| **TLI (Tucker-Lewis Index)** | The TLI value lies between 0 and 1 but is not limited to this range. A value close to 1 indicates a very good fit. A value greater than 1 indicates an over-fit of the model. | 0.956 |
| **RMSEA (Root Mean Square Error of Approximation)** | A value about 0.05 or less indicates a close fit of the model. A value of 0.0 indicates the exact fit of the model. A value of about 0.08 or less indicates a reasonable error of Approximation. A value should not be greater than 0.1. | 0.08 |

(Source: Computed Value)

Based on the statistical results of SEM, the fitness of the research model is articulated through the following relevant measures:

The chi-square value (CMIN) for the default model is 277.509 with 56 degrees of freedom (df), indicating a statistically significant fit ($p < 0.001$). While a lower chi-square value relative to the degrees of freedom suggests a better fit, the obtained value of 4.955 suggests a reasonably good fit. **GFI (Goodness of Fit Index)** measures the proportion of variance in the observed data that is explained by the model. A value of 0.839 indicates a reasonably good fit, where values closer to 1 signify a better fit. **AGFI (Adjusted Goodness of Fit Index)** adjusts the GFI based on the number of parameters estimated. An AGFI of 0.713 suggests that the model explains 71.3% of the variance in the data, considering the complexity of the model. **CFI (Comparative Fit Index)** compares the hypothesized model with the null model. A value of 0.936 indicates a very good fit, as values closer to 1 indicate better fit.

**TLI (Tucker-Lewis Index)** assesses the relative fit of the model compared to a baseline model. A TLI of 0.956 suggests a very good fit, indicating that the proposed model fits the data well. **RMSEA (Root Mean Square Error of Approximation)** RMSEA measures the discrepancy between the observed data and the model. With an RMSEA of 0.08, which is below the threshold of 0.1, the model has a reasonable error of approximation, indicating an acceptable fit.

The fit indices collectively suggest that the structural equation model (SEM) used to analyze the relationships between governance (GOV), professional management (PM), external control (EC), managerial effectiveness (ME), and performance (PR) in Urban Cooperative Banks (UCBs) provides a reasonably good representation of the data. While some indices such as AGFI could be higher, the overall pattern indicates that the model adequately captures the relationships among the variables.

## 5. Testing of Hypotheses

### 5.1 Governance (Gov) and Managerial Effectiveness(ME)

*$H1_1$: There is a positive influence of governance on managerial effectiveness*

*$H1_0$: There is no positive influence of governance on managerial effectiveness*

The regression analysis reveals that the relationship between governance (Gov) and managerial effectiveness (ME) is represented by an estimate of -0.015. This negative regression weight suggests a very weak negative relationship, indicating that as the influence of governance increases, managerial effectiveness slightly decreases. However, the standard error (S.E.) of 0.022 and a critical ratio (C.R.) of -0.667 yield a p-value of 0.505, which is not statistically significant. Therefore, the data does not support a significant impact of governance on managerial effectiveness in this study. Given the p-value is greater than 0.05, fail to reject the null hypothesis ($H_0$) and concluded that there is no positive influence of governance on managerial effectiveness of Scheduled Urban Cooperative Banks.

It can be deduced from the analysis that governance has a negative impact on managerial effectiveness, potentially stemming from factors such as information asymmetry, inadequate risk management strategies, deficiencies in internal controls, and passive involvement of board members. The analysis revealed a negative relationship between Managerial Effectiveness and Governance; specifically, managerial effectiveness decreases by 0.015 units for each 1-unit increase in Governance (GOV). This counterintuitive result raises questions normally, as higher governance levels typically benefit organizations. However, within the cooperative sector, including Scheduled Urban Cooperative Banks (SUCBs), increased governance must be proactive, professional, and positive to be effective. Otherwise, excessive governance can impede management efficiency, a phenomenon well-documented in many of the literature available.

A pertinent study by Lakshmi (2021) explores the failure of Punjab and Maharashtra Co-operative (PMC) Bank, illustrating how excessive governance can negatively impact bank management. The study underscores that the Board of Directors at PMC

Bank, elected by members as per cooperative norms, was compromised and operated unprofessionally. Key players in this controversy included senior bank management, property developers, and politicians, whose vested interests were at stake. Despite PMC Bank's financials, audited by Lakdawala and Co., showing profits of INR 99.69 crores and 2.19% non-performing loans as of March 2019, underlying fraudulent activities were rampant. The auditors' narrow focus on incremental advances, rather than a comprehensive review of all account operations, allowed several ghost accounts to burden the bank with an additional INR 300 crore in liabilities. This collusion among politicians, property developers, and bankers created a conspiracy that ultimately incapacitated the cooperative bank.

Additionally, the study by Ajit Kumar &Srivatsava (2020) highlights poor governance and deficient management standards as dominant reasons for the failure of Urban Cooperative Banks (UCBs). A critical governance issue identified was the issuance of direct or indirect loans to bank directors, often settled through fraudulent means and book manipulations. Funds were taped using inter-branch accounts or bank reconciliation statements. Poor governance led to inadequate credit underwriting standards, misappropriations, credit concentration, and insufficient recovery mechanisms, deteriorating asset quality. Instances of issuing bank guarantees without due diligence, preferential payments benefiting specific groups, and regulatory violations were also noted. Governance issues directly accounted for the failure of UCBs in about 55% of cases, manifesting through camouflaged director-related loans, misappropriation of funds, manipulated accounts, and fraudulent loans and guarantees. These findings further support the conclusion that excessive and mismanaged governance can significantly contribute to the mismanagement and failure of cooperative banks.

These references substantiate and support the present study's conclusion that excessive and improperly managed governance can lead to mismanagement and failure in urban cooperative banks. The evidence aligns with the broader observation that, in the cooperative sector, governance must be executed with a high degree of professionalism and integrity to avoid detrimental outcomes.

In cooperatives, especially Urban Cooperative Banks (UCBs), there is often a lack of active member participation in general body meetings and business development, primarily due to inadequate information dissemination. Risk management and internal control systems in UCBs are frequently less robust compared to corporate sectors or nationalized banks, attributable to deficiencies in knowledge, skills, and attitudes, as well as politicization and bureaucratic influences affecting governance practices. Despite boards of directors being pivotal in policy-making for cooperatives, including UCBs, many members lack comprehensive knowledge in critical banking aspects, occasionally politicizing issues that undermine the bank's accountability, transparency, and credibility. Enhancing governance practices in UCBs can positively influence managerial effectiveness. Thus, it is imperative for the UCBs under study to reassess their governance frameworks to strengthen managerial effectiveness and ensure sustainable operational outcomes.

### *5.2 Professional Management (PM) and Managerial Effectiveness*

*$H2_1$: There is a direct relationship between professional management on managerial effectiveness*

*$H2_0$: There is no direct relationship between professional management on managerial effectiveness*

The relationship between professional management (PM) and managerial effectiveness (ME) is indicated by a positive estimate of 0.036. This positive regression weight implies that enhancements in professional management are associated with an increase in managerial effectiveness. The standard error (S.E.) is 0.028, and the critical ratio (C.R.) is 1.306, resulting in a p-value of 0.192. Although the relationship is positive, it is not statistically significant, meaning that improvements in professional management do not significantly impact managerial effectiveness according to this study. Given that the p-value is greater than 0.05, the study fails to reject the null hypothesis ($H_0$), meaning that professional management do not significantly impact managerial effectiveness according to this study.

In general, and in common parlance, one can expect that professional management will significantly enhance managerial effectiveness by ensuring operational efficiency, delivering effective services, expanding the organizational membership or customer base, and building confidence and trust among depositors. Consequently, this will enhance the institutional image and overall performance of the organization. However, many cooperatives, from primary to apex levels, including SUCBs, often lack professionalism in terms of skilled manpower and the pace of digitization compared to their competitors. Consequently, essential functions such as accounting, auditing, supervision, compliance, reporting, and adherence to regulatory norms may experience delays or inconsistencies.

The study has revealed a positive relationship between professional management (PM) and managerial effectiveness (ME), with a regression weight of 0.036. This suggests that improvements in professional management are associated with increases in managerial effectiveness. However, with a standard error (S.E.) of 0.028, a critical ratio (C.R.) of 1.306, and a p-value of 0.192, the relationship is not statistically significant. This indicates that, despite the positive trend, enhancements in professional management do not significantly impact managerial effectiveness according to this study. Urban co-operative banks are plagued by major issues, including the absence of professional management, undue influence exerted by board members and non-officials on bank managers, and the practice of extending unsecured loans to directors and their family members. Moreover, these banks have failed to modernize and adopt contemporary banking practices, further jeopardizing the interests of depositors (Times of India, 2002).

Professionalism in co-operative banks entails the integration of high-level skills and standards in fulfilling assigned duties. However, the absence of a proper system for placement and skill enhancement hampers professional management in these banks. Despite the existence of training programs in many co-operative banks, these efforts rarely align with current and future staff needs. Effective training should comprehensively address skill enhancement and aptitude development. Additionally, keeping staff motivated through periodic job rotation, job enrichment, and performance recognition is crucial. Co-operative banks must operate like professional organizations with robust managerial systems, anticipating future needs to maintain and enhance their market share and identity. In this context, the professionalism and accountability of the banks' boards are of critical importance (Kamesam, 2002).

In a recent address, RBI Governor Shaktikanta Das emphasis the crucial role of a professional Board of Management in the banking sector, emphasizing the necessity of enhancing compliance, risk management, and internal audit functions. He stressed that a robust governance framework is vital for the stability and integrity of financial institutions. Governor Das also highlighted the importance of proactive asset liability management, urging banks to adopt measures that effectively balance their assets and liabilities to mitigate risks. Additionally, he called for improved liquidity risk management practices to ensure that banks can meet their short-term obligations without compromising their financial health. These measures, he noted, are essential for maintaining the confidence of depositors and ensuring the long-term sustainability of banks (The Economic Times, 2023).

The findings of the present study are justified based on some of the above quoted references regarding the lack of professional management in the urban co-operative banks (UCBs) sector. Despite the observed positive relationship between professional management and managerial effectiveness, the statistical insignificance of this relationship highlights a critical gap that needs to be addressed. This aligns with longstanding views and opinions emphasizing the deficiencies in professional management within UCBs and the pressing need for reforms. The study's results draw attention to the urgent necessity for UCBs to adopt professional management practices to enhance their operational effectiveness and ensure their long-term sustainability. These insights underscore the broader implications for policy and practice, reinforcing the need for immediate action to strengthen the governance and management frameworks of UCBs.

Nevertheless, efforts through capacity building initiatives, training programs for employees and board members, and the implementation of appropriate HR policies have been undertaken by several UCBs to enhance professionalism and thereby improve managerial effectiveness. Although there is a positive association between professional management and managerial effectiveness, the significance of this relationship varies. Given the current context of cooperative bank failures and potential penalties imposed by the RBI, it is imperative for SUCBs to prioritize enhancing the standards of professional management. This step is essential to maintain competitiveness within their operational landscapes and draw attention to the importance of fostering a culture of professionalism and skill development within cooperative banking institutions, aligning with broader industry standards and regulatory expectations.

***5.3 External Control (EC) and Managerial Effectiveness***

*$H3_1$: There is a significant influence of external control on managerial effectiveness*

*$H3_0$: There is no significant influence of external control on managerial effectiveness*

External control (EC) demonstrates a strong and positive impact on managerial effectiveness (ME), with an estimate of 0.362. This significant positive regression weight suggests that effective external control mechanisms significantly enhance managerial effectiveness. The standard error (S.E.) of 0.088 and a critical ratio (C.R.) of 4.105 are results in a highly significant p-value of less than 0.001 and accordingly the study rejects the null-hypothesis and concludes that there is a significant influence of external control on managerial effectiveness within SUCBs.

RBI's approach to regulation in recent times has some features that would enhance the need for and usefulness of good corporate governance in the co-operative sector importance (Kamesam, 2002). As a significant finding of the study, external control mechanisms, particularly oversight by regulatory bodies like the RBI and RCS, exert a significant and positive influence on managerial effectiveness within Urban Cooperative Banks (SUCBs). The findings strongly support the role of external control in ensuring efficient and effective management practices in these banks. Managerial effectiveness, which includes factors such as governance, professionalism, and external control, is demonstrated in this study to enhance total income and achieve cost-effective management, thereby improving overall performance.

In cooperatives, including SUCBs, adherence to democratic control and principles of member participation can sometimes be misinterpreted for personal gain, popularity, ego satisfaction, or political and bureaucratic affiliations. Such misinterpretations occasionally disrupt operations and management, leading to potential mismanagement. However, regulatory bodies such as the RBI and RCS maintain vigilant oversight over UCB operations, ensuring compliance with regulatory frameworks. This oversight compels UCBs to correct deviations promptly, thereby safeguarding their managerial effectiveness and ensuring compliance with regulatory standards crucial for their survival.

The RBI's role in supervising UCBs is particularly pronounced, given its rigorous monitoring and regulatory interventions aimed at maintaining key banking indicators and parameters. Although both the RBI and RCS have distinct roles, the RBI's influence is often more significant in critical areas affecting UCB performance. It is evident from the analysis that without robust external control mechanisms, internal factors within UCBs alone may not suffice to restore or enhance managerial effectiveness, ultimately impacting their overall performance. Therefore, the positive and significant relationship between external control, particularly by regulatory bodies like the RBI and RCS, and managerial effectiveness underscores the crucial role of regulatory oversight in sustaining the effectiveness and stability of UCBs.

In response to financial and governance distress within the cooperative banking sector, the Reserve Bank of India (RBI) has implemented several key initiatives to strengthen its supervisory framework and address compliance issues. The 2020 revision of the Supervisory Action Framework (SAF) introduced threshold limits for asset quality (NNPA, GNPA), profitability, and capital adequacy (CRAR). RBI has imposed fines on cooperative banks for failing to comply with regulatory guidelines, demonstrating its commitment to safeguarding depositor interests. A unified supervisory strategy across commercial banks, NBFCs, and UCBs focuses on addressing vulnerabilities to foster a resilient financial system. In its 2022-23 report, RBI proposed extending the Prompt Corrective Action (PCA) mechanism to Urban Cooperative Banks (UCBs) commencing from the year 2025, triggering corrective actions when banks fail to meet capital adequacy or have high NPAs. Additionally, RBI is considering a Risk-Based Supervision (RBS) model for UCBs, alongside expanding IT and cyber-security measures for larger banks. These efforts reflect the RBI’s proactive role in strengthening the regulatory framework, ensuring financial stability, and promoting sound governance across the banking sector.

### *5.4 Managerial Effectiveness (ME) and Performance(PR):*

*$H4_1$: There is a significant relationship and impact of managerial effectiveness on performance*

*$H4_0$: There is no significant relationship and impact of managerial effectiveness on performance*

The analysis shows a significant positive relationship between managerial effectiveness (ME) and performance (PR), with an estimate of 2.298. This substantial positive regression weight suggests that improvements in managerial effectiveness lead to significant enhancements in performance. The standard error (S.E.) is 0.559, and the critical ratio (C.R.) is 4.109, yielding a highly significant p-value of less than 0.001. Given that the p-value is less than 0.05, the null hypothesis ($H4_0$) is rejected and accepts the hypothesis ($H4_1$). This indicates that there is a significant positive relationship and impact of managerial effectiveness on performance. This finding indicates that managerial effectiveness is a key driver of performance in UCBs, highlighting the importance of effective management practices in achieving superior performance outcomes.

Managerial effectiveness significantly impacts the performance of Urban Cooperative Banks (UCBs). This effectiveness is broadly reflected in metrics such as income generation, expenditure management, operational costs, borrowing capacity, business volume (including advances and deposits), employee performance, and the pace of business diversification, among other factors related to motivation and skill development. When managerial effectiveness is maintained within the regulatory framework, it inevitably enhances the overall performance of UCBs. Therefore, UCBs must handle the parameters of managerial effectiveness with utmost diligence to improve their performance, given its direct influence. While this relationship between managerial effectiveness and performance is positive and significant in many UCBs, in some cases, it shows potential for positivity. Nonetheless, the evidence suggests that managerial effectiveness in Indian UCBs positively impacts performance, underscoring its critical importance across all UCBs.

The study further amplifies the pivotal role of cost efficiency and the bank's competence in utilizing its available deposits by effectively converting them into high-earning assets in determining Net Interest Margin (NIM), highlighting the need for optimizing these ratios to bolster financial strength. Diversifying income sources beyond interest earnings and implementing cost reduction strategies, particularly in manpower expenses, are crucial for enhancing overall profitability and resilience. While Diversification Ratio (DR) i.e., proficiency in generating income from non-interest sources holds significance in balancing risk and return, managerial effectiveness remains paramount in driving bank performance. Continuous monitoring of performance metrics and adaptability to market dynamics ensure sustained competitiveness and profitability, positioning the bank for long-term growth and success.

Sangmi (2010) cautioned against excessive Capital Adequacy Ratio (CAR), which may potentially limit a bank's growth prospects. This concern was echoed by Mamunet et al (2022) and the view has been endorsed through this study since the factor value is lower than the other attributes. Consequently, the findings suggest that attention should be directed towards controlling expenses relative to income, optimizing diversification strategies, maintaining appropriate capital levels, and maximizing non-interest income to enhance overall performance. These managerial implications emphasize the importance of strategic decision-making to achieve optimal financial outcomes.

Implementing efficient cost management strategies to reduce expenses and optimize income generation is crucial for enhancing profitability. TATDR plays a pivotal role in determining Net Interest Margin (NIM). Optimizing TATDR is essential for managing interest income and expenses, thereby strengthening financial robustness. Overall, the results suggest that managerial effectiveness, as measured by these variables, does indeed influence the performance of the bank. These findings accentuate the importance of strategic decision-making and managerial effectiveness in driving bank performance, emphasizing the need for continuous monitoring, adaptability to market dynamics, and a focus on sustainable growth. In essence, UCBs stand poised to further strengthen their position in the Indian banking sector by adhering to prudent financial practices and strategic management practices.

From the analysis, it can be inferred that the relationship between governance and managerial effectiveness is not significant, as indicated by a p-value of 0.505. This suggests that governance does not have a positive influence on managerial effectiveness in Scheduled Urban Cooperative Banks (SUCBs). Similarly, the relationship between professional management and managerial effectiveness is positive but not statistically significant, with a p-value of 0.192, indicating that enhancements in professional management do not significantly impact managerial effectiveness. In contrast, external control demonstrates a strong and positive impact on managerial effectiveness, with a highly significant p-value of less than 0.001. This finding suggests that effective external control mechanisms significantly enhance managerial effectiveness within SUCBs. Furthermore, the analysis shows a significant positive relationship between managerial effectiveness and performance, with a substantial positive regression weight and a highly significant p-value of less than 0.001. This indicates that improvements in managerial effectiveness led to significant enhancements in performance.

Overall, the study concludes that while governance and professional management do not have a significant influence on managerial effectiveness, external control does. Moreover, the significant impact of managerial effectiveness on performance highlights the importance of effective management practices in achieving superior performance outcomes in SUCBs. Therefore, the significant relationship and impact of managerial effectiveness on performance are primarily driven by external control, making it a crucial factor for sustaining the performance of SUCBs. Consequently, maintaining strong external control mechanisms is essential for ensuring the continued success and stability of these financial institutions.

# CHAPTER – 5

# SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

In this study, Managerial Effectiveness (ME) of Scheduled Urban Cooperative Banks (SUCBs) as represented by the three key factors—Governance, Professional Management, and External Control, the influence of ME on Performance was systematically analyzed. The study utilized survey data to gather perceptions from respondents regarding various attributes associated with these factors. Through rigorous statistical analysis, the survey responses were examined to derive meaningful insights into the perceptions and practices prevalent within the context of the study. The following section presents a critical evaluation and descriptive interpretation of the findings, shedding light on the dimensions of managerial effectiveness and performance as perceived by stakeholders in the surveyed domain.

## 1. Findings of the Study

### 1.1 Governance and Professional Management do not Significantly Influence Managerial Effectiveness

Inadequate governance practices can adversely affect managerial effectiveness, as excessive and mismanaged governance creates inefficiencies. There is a need for proactive governance within Scheduled Urban Cooperative Banks (SUCBs) to reassess and improve their governance frameworks, aiming for professionalism and integrity. These improvements are essential to prevent the negative impacts of poor governance on managerial effectiveness.

### 1.2 Positive but Insignificant Relationship between Professional Management and Managerial Effectiveness

The relationship between professional management (PM) and managerial effectiveness (ME) is positive but insignificant, highlighting the lack of professional management within Urban Cooperative Banks (UCBs). UCBs must prioritize the enhancement of professional management standards by addressing the shortage of skilled manpower and reducing delays in essential functions such as accounting, auditing, and compliance. Fostering a culture of professionalism and skill development is crucial, aligning with broader industry standards and regulatory expectations.

### 1.3 External Control Significantly Enhances Managerial Effectiveness

External control mechanisms have a strong positive influence on managerial effectiveness (ME). Regulatory oversight ensures efficient and effective management practices, contributing to increased total income and cost-effective management within SUCBs. Compliance with regulatory standards is critical for the survival and success of these banks, highlighting the importance of external control in enhancing ME.

### 1.4 Managerial Effectiveness Significantly Impacts Performance, Driven by Effective External Control Mechanisms

Managerial effectiveness (ME) is a key driver of performance in SUCBs, particularly when supported by effective external control mechanisms. This features the need for strong management practices to achieve high performance levels. The resilient influence of external control on ME further emphasizes the necessity for SUCBs to adhere to regulatory standards and implement efficient management practices to drive their overall performance.

Overall, the study concludes that governance and professional management do not significantly influence managerial effectiveness in Scheduled Urban Cooperative Banks (SUCBs). However, external control does have a significant impact. Additionally, the substantial influence of managerial effectiveness on performance draws attention to the importance of effective management practices for achieving superior performance outcomes in SUCBs. This significant relationship between managerial effectiveness and performance is primarily driven by external control, highlighting its crucial role in sustaining SUCB's performance. Therefore, maintaining dynamic external control mechanisms is essential for ensuring the continued success and stability of this group of banks.

## 2. Suggestions and Managerial Implications

Based on the findings, this study provides actionable insights and policy implications aimed at enhancing the performance and sustainability of Scheduled Urban Cooperative Banks (SUCBs). By concentrating on the critical areas of governance, professional management, and external control, the study presents evidence-based recommendations designed to bolster managerial effectiveness. Addressing these pivotal areas is essential for overcoming the current challenges facing the sector.

The study's findings are of significant value to policymakers, regulators, and SUCBs' management, offering a pathway to develop more robust governance frameworks and advanced professional management practices. Specifically, the recommendations aim to mitigate governance deficiencies, foster a culture of professionalism, and ensure stringent regulatory oversight. These enhancements are expected to lead to improved operational efficiency, financial stability, and overall spirit of SUCBs.

Policymakers will find the insights useful for formulating regulations that strengthen governance and accountability within SUCBs. Regulators can leverage the recommendations to enforce compliance and oversight more effectively. SUCBs' management can adopt the suggested best practices to improve internal controls, professionalize their operations, and align with broader industry standards. Overall, this study contributes to the advancement of SUCBs by advocating for comprehensive reforms that ensure their long-term viability and trustworthiness in the financial ecosystem.

Considering findings of the study, it is pertinent to highlight the recent observations by the Reserve Bank of India, which align closely with the study's conclusions. The RBI's emphasis on governance and professional management highlights the critical importance of these elements in ensuring the stability and agility of Urban Co-operative Banks. The alignment of these perspectives reinforces the necessity for SUCBs to focus on strengthening their governance frameworks and professionalizing their management practices to enhance overall financial and operational stability.

As described by Nayak (2023) in The Economic Times, the Reserve Bank of India has emphasized the need for directors of Urban Co-operative Banks (UCBs) to enhance governance practices, highlighting the significance of a professional management. Governance quality is deemed the most crucial factor in ensuring the stability of individual banks. Recent improvements in the financial performance of the UCB sector at an aggregate level have been noted yet concerns and vulnerabilities persist for certain individual entities. UCBs are encouraged to augment their financial and operational resilience to contribute to the overall stability of the financial and banking sector. Five critical aspects of board functioning are emphasized: the adequate skills and expertise of directors, the establishment of a professional management, diversity and tenure of board members, a transparent and participatory nature of board discussions, and the effective operation of board-level committees. A planned approach to human resources in UCBs is also insisted, ensuring both the quality and appropriate size of manpower. The role of directors is highlighted as being significant in maintaining the integrity and transparency of financial statements, with a caution against the use of innovative accounting practices that may obscure the actual financial position of the banks.

Urban Cooperative Banks (UCBs) have encountered numerous compliance challenges, leading the Reserve Bank of India (RBI) to implement stringent regulations and oversight measures. The compliance landscape for UCBs is marked by recurring issues that have significant implications for the stability and integrity of the financial system. Recent trends show that the imposition of penalties on UCBs by the RBI has become increasingly common. In the financial year 2023 alone, the RBI imposed penalties in 211 instances, totaling Rs. 40 crores, which is significantly higher than the penalties imposed on other banking groups. The enforcement actions taken by the Reserve Bank of India (RBI) from April 2022 to March 2023 reveal a significant focus on Cooperative Banks, which faced 176 instances of penalties amounting to Rs. 14.04 crores. This is markedly higher compared to other banking groups. These figures highlight the heightened scrutiny and regulatory actions directed towards Cooperative Banks relative to other banking groups, underlining the sectors' unique compliance challenges (The Times of India, 2023).

The Reserve Bank of India (RBI) has cancelled the licenses of 78 Urban Cooperative Banks (UCBs) since calendar year 2014, of which 46 percent are from Maharashtra, according to documents tabled in Parliament. Inadequate capital, poor earnings prospects, deteriorating financial position, and the continuation of operations being prejudicial to the interests of depositors and the public at large, stated Pankaj Chaudhary, Union Minister of State for Finance in a reply tabled in Rajya Sabha on July 30, 2024(Avinash, 2024). The high frequency of penalties imposed on UCBs call attention to the urgent need for vigorous regulation and supervision by the RBI. These enforcement actions not only reveal existing weaknesses within the UCB sector but also highlight the importance of continuous regulatory vigilance to maintain the overall health and stability of the banking system (Mishra &Dharmaraj, 2024). In this context, Urban Cooperative Banks (UCBs), especially the Scheduled Urban Cooperative Banks (SUCBs), should prioritize fortifying three fundamental pillars: compliance, risk management, and internal audit. Strengthening these areas is essential for SUCBs to skillfully navigate the complexities of the financial landscape, effectively mitigate risks, and ensure sustainable growth. The following outlines various policy implications and recommendations through the study:

***2.1 Compliance Accountability:*** Scheduled Urban Cooperative Banks (SUCBs) must enhance their compliance mechanisms to ensure accountability and regulatory adherence. It is essential to appoint a Chief Compliance Officer (CCO) who will be responsible for overseeing all compliance functions, ensuring that statutory requirements and compliance obligations are met. UCBs frequently encounter compliance challenges, which can be mitigated through robust strategies such as regular training, comprehensive compliance programs, and effective internal audits. Adhering to principles of good credit and lending practices, SUCBs should focus on various types of credit, including term loans and working capital loans, and implement stringent customer due diligence processes. The credit appraisal process should be thorough, encompassing essential components of loan documentation and adhering to legal and regulatory requirements. Proper management of pledges, mortgages, hypothecation, liens, and collateral is critical, along with consistent compliance checks. A structured compliance function, led by a dedicated CCO and supported by a well-designed compliance program, will help SUCBs steer regulatory complexities, mitigate risks, and ensure the integrity and stability of their operations.

The Compliance Officer should also report non-compliance issues directly to the board or CEO at regular intervals or as a priority to minimize losses and facilitate quick decision-making. Updating and implementing new market changes in compliance policies is essential for keeping the organization in line with regulatory standards. Regular compliance audit should be conducted to identify and address irregularities and non-compliance issues in a timely manner.

***2.2 Strengthen Risk Management Oversight:*** Scheduled Urban Cooperative Banks (SUCBs) must prioritize a comprehensive risk management framework to ensure accountability and enthusiasm in their operations. Understanding and managing various types of risks—credit, operational, market, and liquidity—are essential. SUCBs should establish strong governance structures, including various risk management committees, to oversee risk-related activities. In credit risk management, SUCBs need to focus on the identification, assessment, and mitigation of credit risk through effective credit appraisal and monitoring techniques. Operational risk management requires attention to the components and causes of operational risk, with strategies to manage these risks effectively. For market and liquidity risks, UCBs should implement tools and techniques, including Asset Liability Management (ALM) to manage liquidity and interest rate risks. Technology plays a crucial role in enhancing risk management capabilities. Additionally, SUCBs must adhere to RBI guidelines on exposure norms, manage credit and concentration risks, and set and manage borrowal limits appropriately. By implementing these measures, SUCBs can strengthen their risk management practices, ensuring the stability and sustainability of their operations.

Additionally, the findings of the study emphasize the significance of oversight by a risk management system, which includes liquidity risk, credit risk, and operational risk, and ensuring the implementation of risk policies and effective risk management. This will help in proactive risk mitigation and compliance with regulatory standards. Risk management committees must routinely evaluate liquidity, market, credit, interest rate, and operational risks, taking effective measures as needed. The establishment of well-defined policies and procedures, along with timely actions, will enhance the effectiveness of these committees. Appointing a Chief Risk Officer (CRO) is crucial for ensuring proactive risk mitigation and maintaining regulatory compliance.

***2.3 Emphasis on Internal Audit and Control:*** Scheduled Urban Cooperative Banks (SUCBs) must place a strong emphasis on internal audit and control to ensure operational integrity. They should establish an effective internal audit department, beginning with comprehensive audit planning, risk assessment, and the development of a Risk-Based Internal Audit (RBIA) programme. They should focus on designing and implementing effective internal controls tailored to their specific operations. Additionally, fraud prevention and detection are critical; SUCBs must be vigilant against common types of fraud, employing proactive measures to detect and prevent fraudulent activities. By prioritizing a vigorous internal audit function and strong internal controls, SUCBs can enhance their resilience, ensure regulatory compliance, and protect against financial and reputational risks.

***2.4 Enhance Disclosure Practices:*** SUCBs should prioritize improving transparency in financial reporting. This can be achieved by ensuring timely and comprehensive disclosure of financial statements that adhere to regulatory requirements. The analysis indicates a need for improvement in fundamental areas such as asset quality, the classification of assets and provisioning, details of stressed assets, information on exposures to big-ticket loans, sector-wise exposure to related parties, and concentration risk. Implementing forceful internal processes for timely follow-up mechanism and ensuring external audit oversight can strengthen credibility and trust among stakeholders.

Regular internal publication of financial statements is vital for transparency within SUCBs. Implementing system-based classifications of NPAs, ALM, maturity patterns of assets and liabilities, and investment portfolio classifications will significantly improve disclosure practices. Detailed reporting of NPAs, including provisioning and exposure to the top 50 borrowers, will provide a clearer picture of asset quality. Additionally, sector-wise advances should be encouraged to minimize concentration risk in SUCBs.

***2.5 Enhance Board Participation and Oversight:*** There is a significant need to increase the active participation of professional directors in audit committees to ensure thorough oversight and accountability. SUCBs should encourage greater engagement from professional directors, ensuring their active contribution to audit processes and governance discussions. The current attendance and participation of professional directors in audit committee meetings indicate a need for more active involvement to enhance oversight and accountability.

The Audit Committee of the Board (ACB) should include more than two professional directors with qualifications in accountancy, law, or economics to ensure healthy participation. It is essential to mandate the regular presentation of concurrent audit, internal audit, statutory audit, and RBI audit reports to the ACB, ensuring that these are adequately addressed.

***2.6 Promote Comprehensive Governance Frameworks:*** The analysis give emphasis to the importance of a holistic approach to governance that includes healthy risk management, transparent disclosure practices, and active board participation. Furthermore, the board of directors' participation in decision-making processes, especially regarding loan processing, sanctioning, follow-up and stringent underwriting procedures, must be subject to rigid due diligence and safeguards. Ensuring the board members possess adequate skills and expertise in these areas, promoting diversity in board composition, and upholding the integrity of board members are essential. Comprehensive governance approach should also incorporate elements such as cyber security and IT compliance.

***2.7 Continuous Improvement and Monitoring:*** To sustain effective governance practices, SUCBs should adopt a culture of continuous improvement and monitoring. This includes regularly reviewing governance structures and practices against industry benchmarks and regulatory guidelines. Establishing feedback mechanisms from stakeholders and conducting periodic internal audits can help identify areas for enhancement and ensure ongoing compliance and performance improvement. Staying updated with sector changes and implementing them regularly within the organization is essential for continuous improvement. Regular feedback from depositors and stakeholders will help in refining governance structures. Periodic internal audits are necessary to identify irregularities, enabling timely resolution and improved performance.

***2.8 Enhance Accountability Policies:*** There is a need for stronger measures to detect and prevent senior management and board-level frauds. Banks should prioritize enhancing their accountability frameworks, including implementing determined internal controls, regular audits, and whistleblower mechanisms. This will help in early detection of irregularities and fraud, ensuring transparency and integrity in financial reporting. The formation of a fraud risk management committee and regular monitoring of daily activities are crucial in preventing fraud. Transparency can be further promoted by disclosing asset quality, NPAs, and customer complaints in financial reports.

***2.9 Focus on Board Training:*** SUCBs should develop and implement comprehensive governance frameworks that integrate these elements seamlessly. This involves regular training and capacity building for board members and staff on governance principles, regulatory updates, and best practices in financial reporting. Despite the prevailing practices, there is a need to enhance board training activities. Continuous training for board members on governance practices, regulatory updates, and emerging industry trends is crucial for effective decision-making and oversight. Banks should invest in board development programs and workshops that enhance skills and knowledge relevant to their roles in governance and strategic direction. Sector-specific training for board members will improve decision-making by equipping them with the necessary expertise and skills.

***2.10 Promote Innovation and Process Reviews:*** Cultivating a culture of product; new product development and process innovation; service delivery formats and conducting regular reviews on such course of action are critical for maintaining competitiveness and operational efficiency. Banks should encourage innovation initiatives that improve customer service, streamline operations, and leverage emerging technologies. Regular process reviews help identify inefficiencies, enhance controls, and ensure compliance with regulatory standards. Emphasizing these practices will foster a dynamic organizational culture focused on continuous improvement and adaptation to market changes. Keeping SUCBs updated with new technologies and meeting current market demands is vital for fostering innovation. The adoption of mobile banking, internet banking, ATMs, and BNA (Bunch/Bulk

Note Acceptors) will encourage initiatives that enhance customer service and rationalize banking processes.

***2.11 Cyber security and Data Protection:*** Given the emphasis on comprehensive information and cyber security policies, banks should continue to prioritize data protection measures. This includes investing in vibrant cyber security infrastructure, conducting regular security audits, and training staff on cyber security best practices. Protecting sensitive data not only enhances operational integrity but also safeguards customer trust and compliance with data protection regulations.

***2.12 Optimize HR Practices:*** Structured HR practices are pivotal in building a competent workforce aligned with the bank's strategic objectives. Banks should continue to invest in comprehensive HR policies that attract, develop, and retain talented professionals. This includes competitive compensation packages, performance management systems, training and development and opportunities for career development. Optimizing HR practices enhances organizational efficiency, employee satisfaction, and overall performance.

***2.13 Enhancing Oversight and Supervision:*** Given the high confidence in RBI's supervision and regulatory oversight, it is essential to maintain and further enhance these aspects. Continuous vigilance and early issue detection are critical for maintaining financial stability and preventing banking distress. This can be achieved through regular inspections, audits, and proactive engagement with UCBs to address emerging risks promptly. Addressing the mixed response regarding the RBI's regulatory powers over UCBs compared to banking companies is crucial. There is a need for the RBI to review and potentially strengthen its regulatory toolkit specific to UCBs. This could involve revisiting regulations to ensure they are strong enough to address the unique characteristics and challenges faced by cooperative banks.

The RBI plays a crucial role in regulating SUCBs through the issuance of various master directions and circulars on different topics. RBI inspection reports serve as legislative measures that help improve current banking practices and manage risks effectively. The allocation of Senior Supervisory Managers (SSMs) for each SUCB significantly enhances oversight and supervision. Internal audits, inspections, and the effective functioning of ACB and Fraud Risk Management committees are critical for the early detection and rectification of irregularities.

***2.14 Streamlining Regulatory Frameworks:*** The perception of duality in control and regulation as a hindrance indicates a need for streamlining regulatory frameworks. Clear delineation of responsibilities between the RBI and other regulatory bodies (like RCS/CRCS) can reduce overlapping jurisdictions and ensure more efficient oversight. This streamlining can enhance clarity, consistency, and compliance among SUCBs. Regular meetings between the RBI and the Registrar of Cooperative Societies (RCS) are essential for reforming regulatory control over SUCBs. Aligning the instructions and regulations issued by both the RBI and CRCS will ensure more effective oversight and control.

***2.15 Promoting Regulatory Awareness:*** Improving awareness among SUCBs about regulatory standards and compliance requirements is essential. The RBI should consider furthermore initiatives such as workshops, training sessions, and regular communication to ensure that SUCBs understand and adhere to regulatory expectations effectively. Cyber security alerts and other critical notifications should be provided through the *DAKSH* (Reserve Bank’s Advanced Supervisory Monitoring System)portal to ensure compliance. Additionally, the RBI should conduct training and workshops for top-level management, including CEOs, CCOs, CROs, and Heads of Internal Audit, to keep them informed and prepared for regulatory challenges.

***2.16 Supporting Legislative Reforms:*** The positive perception of legislative reforms such as amendments in the Banking Regulation Act and SARFAESI Act indicates support for policy changes aimed at strengthening regulatory frameworks. Continuous review and adaptation of these legislative measures to current banking practices and risks will bolster regulatory effectiveness.

***2.17 Investing in Technology and Expertise:*** To strengthen regulatory oversight, there should be investments in technology for data analytics, risk monitoring systems, and expertise in regulatory compliance. This will enable the RBI to conduct more comprehensive and real-time assessments of SUCBs' operations and risks. The implementation of new CBS technology, along with the integration of mobile banking, internet banking, CKYC, and account opening channels, is essential for modern banking operations. Real-time assessment of SUCB operations and risks should be facilitated through Off-Site Surveillance (OSS) and regular returns via the Centralized Information Management System (CIMS) portal.

***2.18 Collaboration and Consultation:*** Encouraging collaboration and consultation between regulatory bodies, SUCBs, and industry stakeholders can foster mutual understanding and effective implementation of regulatory measures. This approach can lead to more tailored regulations that address specific challenges faced by SUCBs while ensuring alignment with broader regulatory goals. Regular seminars and meetings between regulatory bodies and SUCBs are necessary to foster effective collaboration and consultation. Online virtual meetings should also be held to discuss and address specific challenges faced by SUCBs, providing a platform for constructive regulatory input.

## 3. Conclusion

The comprehensive analysis and recommendations provided in this study are geared towards enhancing the performance, governance, and sustainability of Scheduled Urban Cooperative Banks (SUCBs). By addressing key areas such as compliance, risk management, internal audit, governance frameworks, and board participation, the study offers actionable insights that are crucial for overcoming the challenges currently faced by SUCBs.

The policy implications outlined are not only vital for strengthening SUCBs but also have broader social implications. Effective governance and professional management practices will contribute to the financial stability of these institutions, which, in turn, ensures the protection of depositors' interests, particularly in economically vulnerable communities that rely heavily on SUCBs for their banking needs. Given the current challenges confronting the sector, the improved compliance and risk management stands as the foremost solution to safeguard the savings of millions of depositors, thereby enhancing trust and confidence in the cooperative banking sector.

Furthermore, by promoting transparency, accountability, and innovation, SUCBs can better serve their communities, including those in underserved urban and semi-urban areas. Enhanced financial reporting and the adoption of advanced technologies will lead to more efficient and accessible banking services, fostering financial inclusion and economic empowerment.

The social impact of these measures is significant; stronger SUCBs will not only contribute to the resilience of the financial sector but also to the economic development of the communities they serve. As these banks improve their operational integrity and expand their service offerings, they can play a pivotal role in supporting small businesses, providing affordable credit, and promoting financial literacy. This, in turn, will help bridge the gap between formal financial institutions and marginalized populations, leading to more equitable economic growth.

In conclusion, the study emphasizes the imperative for comprehensive reforms within the SUCB sector, highlighting the urgency of addressing existing vulnerabilities. The recent introduction of the Prompt Corrective Action (PCA) framework for UCBs by the Reserve Bank of India in July 2024 is a particularly commendable step in this direction, reflecting a significant and timely advancement in regulatory oversight. This development signals a proactive approach to safeguarding financial stability and echoes the importance of stringent regulatory mechanisms in fortifying the sector against future challenges. By implementing the recommendations of the study, SUCBs can achieve not only financial sustainability but also contribute positively to the society, ensuring that the cooperative banking model continues to be a pillar of support for inclusive economic development in India.

## 4. Scope for Further Research:

Although Urban Cooperative Banks (UCBs) are categorized into scheduled and non-scheduled banks, this study focuses exclusively on "Scheduled UCBs" due to their significant relevance to the topic and business scope. This selective focus enhances the study's depth and specificity. Future research could expand upon this work by differentiating between the various classifications of UCBs, offering a comparative analysis that may yield additional insights. To further strengthen the vigor of future studies, cross-sectional comparisons between scheduled and non-scheduled UCBs could be undertaken. Such comparisons would provide a clearer understanding of the distinctions and commonalities within these categories, contributing to a more comprehensive analysis. Additionally, several key areas present fertile ground for further research. These include:

***Compliance Mechanisms:*** Investigating the regulatory compliance frameworks within UCBs, evaluating their effectiveness, and identifying areas for improvement.

***Risk Management:*** Analyzing the risk management strategies employed by UCBs, assessing their adequacy in mitigating financial and operational risks, and proposing enhancements.

***Internal Audit:*** Examining the internal audit processes, determining their role in ensuring financial integrity and operational efficiency, and suggesting best practices.

***Applied Human Resources (HR):*** Exploring HR practices within UCBs, particularly focusing on recruitment, training, performance management, and employee retention strategies.

***Fraud Prevention***: Investigating the measures in place to prevent and detect fraud, evaluating their effectiveness, and recommending improvements to safeguard the institutions' assets and reputation.

By delving into these critical areas, future studies can provide valuable insights that will not only enhance the understanding of UCBs but also contribute to the development of more effective management and operational strategies within these banks.

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*** * * * * ***

# APPENDIX – I

## REGRESSION RESULTS AND DEFAULT MODELS

### 1. Regression Weights: (Group number 1 - Default model)

| Attributes | | | Estimate | Standard Error (S.E.) | (Critical Ratio) C.R. | P-Value |
|---|---|---|---|---|---|---|
| Managerial Effectiveness | <--- | Governance | -0.015 | 0.022 | -0.667 | 0.505 |
| Managerial Effectiveness | <--- | Professional Management | 0.036 | 0.028 | 1.306 | 0.192 |
| Managerial Effectiveness | <--- | External Control | 0.362 | 0.088 | 4.105 | *** |
| Performance | <--- | Managerial Effectiveness | 2.298 | 0.559 | 4.109 | *** |
| Board of management includes independent directors with special knowledge and practical experience. | <--- | Governance | 1.000 | | | |
| Disclosure of information on its exposures | <--- | Governance | 0.348 | 0.167 | 2.077 | 0.038 |
| Board is approving HR Policy consisting of qualifications, | <--- | Professional Management | 1.000 | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| selection, transfer, training, remuneration etc. exists in the bank. | | | | | | |
| Accountability policy approved by the BOD – BoDs | <--- | Professional Management | 1.194 | 0.254 | 4.693 | *** |
| Encouraging innovation, adopting best practices and staying well-informed of emerging trends and technologies. | <--- | Professional Management | 2.165 | 0.451 | 4.797 | *** |
| Supervising and regulating the bank through CRR/SLR/Loan and Investment Exposure Standards/ KYC/ AML etc. | <--- | External Control | 1.000 | | | |
| Both off-site and on-site examination and surveillance is really vigilant. | <--- | External Control | 0.429 | 0.049 | 8.660 | *** |
| Strong competence in utilizing available deposits by effectively converting them | <--- | Managerial Effectiveness | 1.000 | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| into high-earning advances. | | | | | | |
| Effectively management of costs, as indicated by the proportion of total expenses relative to total income. | <--- | Managerial Effectiveness | 0.670 | 0.219 | 3.054 | 0.002 |
| Effective governance and Professional management practices significantly enhances the financial performance (NIM). | <--- | Performance | 1.000 | | | |
| External control and oversight contribute to thereby positively impacting the NIM. | <--- | Performance | 1.300 | 0.073 | 17.926 | *** |

*(Source: Computed Value)*

**2. Standardized Regression Weights: (Group number 1 - Default model)**

| | | | **Estimate** |
|---|---|---|---|
| Managerial Effectiveness | <--- | Governance | -0.032 |
| Managerial Effectiveness | <--- | Professional Management | 0.041 |

| | | | **Estimate** |
|---|---|---|---|
| Managerial Effectiveness | <--- | External Control | 1.033 |
| Performance | <--- | Managerial Effectiveness | 1.020 |
| Board of management includes independent directors with special knowledge and practical experience. | <--- | Governance | 0.730 |
| Disclosure of information on its exposures | <--- | Governance | 0.207 |
| Board is approving HR Policy consisting of qualifications, selection, transfer, training, remuneration etc. exists in the bank. | <--- | Professional Management | 0.433 |
| Accountability policy approved by the BOD –BoDs | <--- | Professional Management | 0.434 |
| Encouraging innovation, adopting best practices and staying well-informed of emerging trends and technologies. | <--- | Professional Management | 0.772 |
| Supervising and regulating the bank through CRR/SLR/Loan and Investment Exposure Standards/ KYC/ AML etc. | <--- | External Control | 0.959 |
| Both off-site and on-site examination and surveillance is really vigilant. | <--- | External Control | 0.451 |
| Strong competence in utilizing available deposits by effectively converting them into high-earning advances. | <--- | Managerial Effectiveness | 0.238 |
| Effectively management of costs, as indicated by the proportion of total expenses relative to total income. | <--- | Managerial Effectiveness | 0.250 |
| Effective governance and Professional management practices significantly enhances the financial performance (NIM). | <--- | Performance | 0.739 |
| External control and oversight contribute to thereby positively impacting the NIM. | <--- | Performance | 0.946 |

*(Source: Computed Value)*

**3. Covariance: (Group number 1 - Default model)**

| | | | Estimate | S.E. | C.R. | P | Label |
|---|---|---|---|---|---|---|---|
| Governance | <--> | Professional Management | 0.059 | 0.016 | 3.674 | *** | |
| Governance | <--> | External Control | 0.168 | 0.027 | 6.134 | *** | |
| Professional Management | <--> | External Control | 0.060 | 0.016 | 3.735 | *** | |

(Source: Computed Value)

4. **Correlations: (Group number 1 - Default model)**

| | | | Estimate |
|---|---|---|---|
| Governance | <--> | Professional Management | 0.481 |
| Governance | <--> | External Control | 0.541 |
| Professional Management | <--> | External Control | 0.379 |

(Source: Computed Value)

**5. Variances: (Group number 1 - Default model)**

| | Estimate | S.E. | C.R. | P | Label |
|---|---|---|---|---|---|
| Governance | 0.240 | 0.117 | 2.050 | 0.040 | |
| Professional Management | 0.063 | 0.020 | 3.082 | 0.002 | |
| External Control | 0.400 | 0.038 | 10.560 | *** | |
| e12 | -0.003 | 0.003 | -0.976 | 0.329 | |
| e13 | -0.010 | 0.012 | -0.817 | 0.414 | |
| e1 | 0.210 | 0.114 | 1.850 | 0.064 | |
| e2 | 0.652 | 0.055 | 11.847 | *** | |
| e3 | 0.274 | 0.026 | 10.640 | *** | |
| e4 | 0.387 | 0.036 | 10.625 | *** | |
| e5 | 0.200 | 0.054 | 3.695 | *** | |
| e6 | 0.035 | 0.014 | 2.610 | 0.009 | |
| e7 | 0.288 | 0.024 | 12.162 | *** | |
| e8 | 0.817 | 0.067 | 12.215 | *** | |
| e9 | 0.329 | 0.027 | 12.213 | *** | |

| | | | | | |
|---|---|---|---|---|---|
| e10 | 0.207 | 0.017 | 11.899 | *** | |
| e11 | 0.049 | 0.008 | 6.225 | *** | |

(Source: Computed Value)

**Model Fit Summary**

**6. Chi-square value (CMIN)**

| Model | NPAR | CMIN | DF | P | CMIN/DF |
|---|---|---|---|---|---|
| Default model | 29 | 277.509 | 56 | 0.000 | 4.955 |
| Saturated model | 66 | 0.000 | 0 | | |
| Independence model | 11 | 1522.154 | 55 | 0.000 | 27.676 |

(Source: Computed Value)

**7. Goodness of Fit Index**

| Model | RMR | GFI | AGFI | PGFI |
|---|---|---|---|---|
| Default model | 0.064 | 0.839 | 0.713 | 0.470 |
| Saturated model | 0.000 | 1.000 | --- | --- |
| Independence model | 0.139 | 0.488 | 0.386 | 0.407 |

(Source: Computed Value)

**8. Baseline Comparisons**

| Model | NFI Delta1 | RFI rho1 | IFI Delta2 | TLI rho2 | CFI |
|---|---|---|---|---|---|
| Default model | 0.918 | 0.929 | 0.938 | 0.956 | 0.936 |
| Saturated model | 1.000 | --- | 1.000 | --- | 1.000 |
| Independence model | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |

(Source: Computed Value)

9. **Root Mean Square Error of Approximation (**RMSEA)

| **Model** | **RMSEA** | **LO 90** | **HI 90** | **PCLOSE** |
|---|---|---|---|---|
| Default model | 0.08 | 0.131 | 0.164 | 0.000 |
| Independence model | 0.299 | 0.286 | 0.312 | 0.000 |

(Source: Computed Value)

# Appendix - II

## COMPUTED VALUES OF FACTOR ANALYSIS

### 10. Governance Total Variance Explained

| Component | Initial Eigen Values | | | Extraction Sums of Squared Loadings | | | Rotation Sums of Squared Loadings | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| Preparation and disclosure of audited annual financial statements in accordance with the (GAAP). | 3.590 | 27.614 | 27.614 | 3.590 | 27.614 | 27.614 | 2.331 | 17.932 | 17.932 |
| Disclosure of capital adequacy position on a regular basis. | 1.939 | 14.919 | 42.533 | 1.939 | 14.919 | 42.533 | 2.209 | 16.990 | 34.922 |
| Disclosure of information related to its asset quality. | 1.375 | 10.577 | 53.110 | 1.375 | 10.577 | 53.110 | 1.970 | 15.153 | 50.075 |
| Disclosure of information on its exposures | 1.264 | 9.720 | 62.830 | 1.264 | 9.720 | 62.830 | 1.658 | 12.755 | 62.830 |
| Disclosure of information about its branch network | 0.928 | 7.142 | 69.972 | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Disclosure of information related to customer service, such as grievance redressal mechanisms and customer complaints. | .858 | 6.604 | 76.575 | | | | | | |
| Check on the work of the internal and external auditors and independent check on the information received from management. | 0.655 | 5.035 | 81.611 | | | | | | |
| The inter-branch accounts/branch adjustment accounts or bank reconciliation statements. | 0.593 | 4.562 | 86.173 | | | | | | |
| Effective use of internal and external auditors, compliance and legal functions and overseeing banks' risk management and control systems. | 0.446 | 3.427 | 89.600 | | | | | | |
| Risk management committee oversees the bank's risk management system/risk policy | 0.424 | 3.265 | 92.865 | | | | | | |
| Board of management includes independent directors with special knowledge and practical experience. | 0.362 | 2.783 | 95.649 | | | | | | |
| Attendance and participation of professional directors in audit committee meetings | 0.320 | 2.461 | 98.110 | | | | | | |
| Decision-making processes are open to scrutiny (Due diligence and safeguards). | 0.246 | 1.890 | 100.000 | | | | | | |

*(Source: Computed Value)*

## 11. Rotated Component Matrix

| Extraction Method: Principal Component Analysis. | | | | |
|---|---|---|---|---|
| | Component | | | |
| | 1 | 2 | 3 | 4 |
| The bank discloses information on its exposures (large exposures, sector-wise exposure, exposure to related parties, and concentration risk). | 0.839 | | | |
| The bank discloses capital adequacy position on a regular basis. (This includes the disclosure of capital funds, risk-weighted assets, capital adequacy ratio, and the composition of regulatory capital) | 0.821 | | | |
| The bank discloses information related to customer service, such as grievance redressal mechanisms and customer complaints. | 0.682 | | | |
| The bank prepares and disclose audited annual financial statements in accordance with the Generally Accepted Accounting Principles (GAAP). | 0.517 | | | |
| Board of management includes independent directors with special knowledge and practical experience. | | 0.825 | | |
| Boards of directors and senior management always insists on the work of the internal and external auditors, and of others, performing control functions as an independent check on the information received from management. | | 0.747 | | |
| The bank maintains rigorous practices, ensuring that their decision-making processes are open to scrutiny (Due diligence and safeguards) relating to loan processing, sanctioning, bank guarantees etc. | | 0.717 | | |
| Effective use of internal and external auditors, as well as other officers exercising compliance and legal functions ensures in overseeing banks' risk management and control systems. | | 0.538 | | |

| | | | | |
|---|---|---|---|---|
| Bank keep-up sincerely the inter-branch accounts/branch adjustment accounts or bank reconciliation statements. | | | 0.818 | |
| Risk management committee oversees the bank’s risk management system (operational risk, liquidity risk and credit risk) and ensures that the risk policy of the bank is properly implemented. | | | 0.746 | |
| Attendance and participation of professional directors in audit committee meetings | | | 0.582 | |
| The bank discloses information related to its asset quality. (This includes the classification of assets and provisioning norms, and details of stressed assets). | | | | 0.814 |
| The bank discloses information about its branch network (including the number of branches, their locations, and services provided). | | | | 0.812 |
| Extraction Method: Principal Component Analysis.<br>Rotation Method: Varimax with Kaiser Normalization. | | | | |
| a. Rotation converged in 5 iterations. | | | | |

(Source: Computed Value)

## 12. Professional Management-Total Variance Explained

| Component | Initial Eigen Values | | | Extraction Sums of Squared Loadings | | | Rotation Sums of Squared Loadings | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| The CEO certifies prudently all reports and schedules, which is to be placed in the Board and in the AGM. | 4.619 | 32.989 | 32.989 | 4.619 | 32.989 | 32.989 | 2.796 | 19.974 | 19.974 |
| Inspection and quality of audit with more professionalism is being made within the current structure. | 1.738 | 12.415 | 45.404 | 1.738 | 12.415 | 45.404 | 2.133 | 15.236 | 35.210 |
| Appointment of internal auditors is being made objectively. | 1.459 | 10.424 | 55.828 | 1.459 | 10.424 | 55.828 | 2.128 | 15.200 | 50.410 |
| Accountability policy approved by the BOD exists for detecting serious lapses, irregularities/frauds by the senior management and board of directors. | 1.264 | 9.026 | 64.854 | 1.264 | 9.026 | 64.854 | 2.022 | 14.444 | 64.854 |
| Accountability policy approved by the BOD exists for detecting serious lapses, irregularities/frauds by the staff. | 0.960 | 6.859 | 71.713 | | | | | | |
| Information and cyber-security policy approved by the BOD exists. | 0.760 | 5.430 | 77.143 | | | | | | |
| Compliance department/officer exists and reports directly to the board/CEO. | 0.645 | 4.609 | 81.753 | | | | | | |
| Management of the bank has enough frameworks and ensures compliance with all applicable laws. | 0.623 | 4.447 | 86.199 | | | | | | |
| Board is approving HR Policy consisting of qualifications, selection, transfer, training, remuneration etc. exists in the bank. | 0.496 | 3.544 | 89.743 | | | | | | |
| Bank is having CEO with board approved qualifications. | 0.385 | 2.748 | 92.491 | | | | | | |
| Regular training is provided by the bank to BoDs. | 0.335 | 2.392 | 94.884 | | | | | | |
| Regular training provided by the bank to Employees | 0.312 | 2.230 | 97.114 | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| The bank fosters a culture of continuous improvement by encouraging innovation, adopting best practices from the banking industry and staying abreast of emerging trends and technologies. | 0.243 | 1.737 | 98.851 | | | | | | |
| The bank adopts regularly review processes and policies to identify areas for enhancement. | 0.161 | 1.149 | 100.000 | | | | | | |
| Extraction Method: Principal Component Analysis. | | | | | | | | | |

(Source: Computed Value)

## 13. Rotated Component Matrix

| | Component | | | |
|---|---|---|---|---|
| | **1** | **2** | **3** | **4** |
| PM4Accountability policy approved by the BOD exists for detecting serious lapses, irregularities/frauds by the senior management and board of directors. | **0.746** | | | |
| PM2 Inspection and quality of audit with more professionalism is being made within the current structure. | 0.720 | | | |
| PM6 Information and cyber-security policy approved by the BOD exists. | 0.712 | | | |
| PM12 Regular training provided by the bank to Employees | 0.620 | | | |
| PM13The bank fosters a culture of continuous improvement by encouraging innovation, adopting best practices from the banking industry and staying abreast of emerging trends and technologies. | | **0.838** | | |
| PM11 Regular training is provided by the bank to BoDs. | | 0.611 | | |
| PM3 The bank fosters a culture of continuous improvement by encouraging innovation, adopting best practices from the banking industry and staying abreast of emerging trends and technologies. | | 0.524 | | |
| PM9 Board is approving HR Policy consisting of qualifications, selection, transfer, training, remuneration etc. exists in the bank. | | | **0.742** | |
| PM5 Accountability policy approved by the BOD exists for detecting serious lapses, irregularities/frauds by the staff. | | | 0.712 | |
| PM14 The bank adopts regularly review processes and policies to identify areas for enhancement. | | | 0.620 | |
| PM10 Bank is having CEO with board approved qualifications. | | | 0.612 | |
| PM1 The CEO certifies prudently all reports and schedules, which is to be placed in the Board and in the AGM. | | | | 0.713 |

| | | | | |
|---|---|---|---|---|
| PM8 Management of the bank has enough frameworks and ensures compliance with all applicable laws. | | | | 0.652 |
| PM7 Compliance department/officer exists and reports directly to the board/CEO. | | | | 0.607 |
| Extraction Method: Principal Component Analysis.<br>Rotation Method: Varimax with Kaiser Normalization. | | | | |
| a. Rotation converged in 19 iterations. | | | | |

(Source: Computed Value)

### 14. External Control - Total Variance Explained

| Component | Initial Eigen Values | | | Extraction Sums of Squared Loadings | | | Rotation Sums of Squared Loadings | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| RBI has high regards in exercising of corporate governance in the banks. | 4.051 | 40.508 | 40.508 | 4.051 | 40.508 | 40.508 | 2.459 | 24.586 | 24.586 |
| RBI’s both off-site and on-site examination and surveillance is really vigilant. | 2.066 | 20.658 | 61.166 | 2.066 | 20.658 | 61.166 | 2.439 | 24.390 | 48.976 |
| RBI is supervising and regulating the bank through CRR/SLR/Loan and Investment Exposure Standards/ KYC/ AML etc. | 1.179 | 11.786 | 72.952 | 1.179 | 11.786 | 72.952 | 1.789 | 17.888 | 66.864 |
| Highest standards of regulatory scrutiny through RBI to prevent the banking distress is satisfactory | 1.022 | 10.222 | 83.174 | 1.022 | 10.222 | 83.174 | 1.631 | 16.310 | 83.174 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Recent reforms such as amendment in BR Act, application of SARFESI Act etc. will be of helpful to the effective management of your bank. | 0.374 | 3.741 | 86.916 | | | | | | |
| RBI does not enjoy the same powers to regulate UCBs as in case of banking companies, especially in matters relating to governance and resolution. | 0.336 | 3.355 | 90.271 | | | | | | |
| The duality of control/regulation is one of the main hindrances for the more effective management of your bank | 0.292 | 2.920 | 93.190 | | | | | | |
| The RCS/CRCS and the cooperative department officers are professionally qualified to control and monitor UCBs. | 0.280 | 2.799 | 95.989 | | | | | | |
| The role of RCS/CRCS ensures proper control of your bank (through administrative, elections, auditing related matters) | 0.223 | 2.228 | 98.217 | | | | | | |
| Auditors appointed from the panel of RCS/CRCS are professionally competent and rigorously trained | 0.178 | 1.783 | 100.000 | | | | | | |
| Extraction Method: Principal Component Analysis. | | | | | | | | | |

(Source: Computed Value)

**15. Rotated Component Matrix**

| | Component | | | |
|---|---|---|---|---|
| | 1 | 2 | 3 | 4 |
| EC2 RBI is supervising and regulating the bank through CRR/SLR/Loan and Investment Exposure Standards/ KYC/ AML etc. | **0.893** | | | |
| EC10 Auditors appointed from the panel of RCS/CRCS are professionally competent and rigorously trained | 0.854 | | | |
| EC9 The role of RCS/CRCS ensures proper control of your bank (through administrative, elections, auditing related matters) | 0.849 | | | |
| EC3 Highest standards of regulatory scrutiny through RBI to prevent the banking distress is satisfactory | | **0.886** | | |
| EC1 RBI has high regards in exercising of corporate governance in the banks. | | 0.844 | | |
| EC5 Recent reforms such as amendment in BR Act, application of SARFESI Act etc. will be of helpful to the effective management of your bank. | | 0.840 | | |
| EC4 Highest standards of regulatory scrutiny through RBI to prevent the banking distress is satisfactory | | | 0.815 | |
| EC8 The RCS/CRCS and the cooperative department officers are professionally qualified to control and monitor UCBs. | | | 0.814 | |
| EC7 The duality of control/regulation is one of the main hindrances for the more effective management of your bank | | | | 0.801 |
| EC6 Auditors appointed from the panel of RCS/CRCS are professionally competent and rigorously trained | | | | 0.749 |
| Extraction Method: Principal Component Analysis.<br>Rotation Method: Varimax with Kaiser Normalization. | | | | |
| a. Rotation converged in 5 iterations. | | | | |

(Source: Computed Value)

**16. Managerial Effectiveness- Total Variance Explained**

| Component | Initial Eigen Values | | | Extraction Sums of Squared Loadings | | | Rotation Sums of Squared Loadings | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| The bank effectively manages its costs, as indicated by the proportion of total expenses relative to total income. | 1.142 | 22.839 | 22.839 | 1.142 | 22.839 | 22.839 | 1.142 | 22.831 | 22.831 |
| The bank demonstrates strong competence in utilizing its available deposits by effectively converting them into high-earning advances. | 1.036 | 20.717 | 43.557 | 1.036 | 20.717 | 43.557 | 1.036 | 20.726 | 43.557 |
| The management of the bank is proficient in generating income from non-interest sources, showcasing their ability to diversify income streams | 0.994 | 19.874 | 63.431 | | | | | | |
| The bank operates efficiently with a smaller workforce, reflecting the effectiveness of its operational management. | 0.956 | 19.128 | 82.559 | | | | | | |
| The bank maintains an adequate buffer of its own funds against risk-weighted assets, demonstrating efficiency in risk management and capital adequacy. | 0.872 | 17.441 | 100.000 | | | | | | |
| Extraction Method: Principal Component Analysis. | | | | | | | | | |

(Source: Computed Value)

## 17. Rotated Component Matrix

| | Component | |
|---|---|---|
| | 1 | 2 |
| ME2The bank demonstrates strong competence in utilizing its available deposits by effectively converting them into high-earning advances. | **0.678** | |
| ME4The bank operates efficiently with a smaller workforce, reflecting the effectiveness of its operational management. | -0.628 | |
| ME3The management of the bank is proficient in generating income from non-interest sources, showcasing their ability to diversify income streams | 0.525 | |
| ME1The bank effectively manages its costs, as indicated by the proportion of total expenses relative to total income. | | **0.775** |
| ME5The bank maintains an adequate buffer of its own funds against risk-weighted assets, demonstrating efficiency in risk management and capital adequacy. | | 0.525 |
| Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. | | |
| a. Rotation converged in 3 iterations. | | |

(Source: Computed Value)

**Performance - Total Variance Explained**

| Component | Initial Eigen Values | | | Extraction Sums of Squared Loadings | | | Rotation Sums of Squared Loadings | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| Effective governance and Professional management practices significantly enhances the financial performance (NIM). | 1.635 | 40.883 | 40.883 | 1.635 | 40.883 | 40.883 | 1.388 | 34.700 | 34.700 |
| External control and oversight contribute to thereby positively impacting the NIM. | 1.123 | 28.085 | 68.968 | 1.123 | 28.085 | 68.968 | 1.371 | 34.268 | 68.968 |
| Effective governance and Professional management practices significantly enhances the financial performance (ROA). | 0.676 | 16.900 | 85.868 | | | | | | |
| External control and oversight contribute to thereby positively impacting the ROA. | 0.565 | 14.132 | 100.000 | | | | | | |

Extraction Method: Principal Component Analysis.

**Rotated Component Matrix (a)**

| | Component | |
|---|---|---|
| | **1** | **2** |
| P1 Effective governance and Professional management practices significantly enhances the financial performance (NIM). | **0.854** | |
| P4 External control and oversight contribute to thereby positively impacting the ROA. | 0.803 | |
| P2 External control and oversight contribute to thereby positively impacting the NIM. | | **0.833** |
| P3 Effective governance and Professional management practices significantly enhances the financial performance (ROA). | | 0.803 |

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a Rotation converged in 3 iterations.

# APPENDIX - III

## QUESTIONNAIRE FOR BOARD OF DIRECTORS/EXECUTIVES

**Mohan Kumar Mishra**
**Ph.D Scholasr**

Dear Sir/Madam, Greetings.

As a part of Ph.D, I pursue this research project titled on **"A Study of Managerial Effectiveness and Performance of Scheduled Urban Cooperative Banks in India"** in the Department of Management Studies, Delhi University, New Delhi. This survey aims to study the impact of managerial effectiveness on the performance of UCBs. I will be grateful for your kind cooperation in providing information by expressing your opinion about the performance of Scheduled UCBs. This survey will take approximately 15 minutes to complete the questionnaire. Your survey responses will be kept strictly confidential and data from this research will be reported only in the aggregate format to the academic purpose only. Your information will be coded and will remain confidential. If you have any questions about this survey, you are welcome to contact any time at **9868579789** or by E-mail at **mohanmishra7ad@gmail.com**.

Thank you very much for your valuable time and support.

Yours faithfully,

Sd/-

**Mohan Kumar Mishra**

(Research Scholar)

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## I. Profile of the Respondent

| Designation | | | |
|---|---|---|---|
| Gender (Please √) | Male: | | Female: |
| Age Group (Please √) | Less than 35 Yrs | 36 – 50 Yrs | 51 – 60 Yrs Above 60 Yrs. |
| Education (Please √) | UG: | PG: | Professional Qualification: (CA/LLB/CAIIB etc.) |
| Years of Service (Please √) | Less than 15 Years | 16 -30 Years | More than 30 Years |

## II. For the following statements please put √ in the appropriate column:

| Sl .No . | Statements | SA | A | N | DA | SDA |
|---|---|---|---|---|---|---|
| 1. | Preparation and disclosure of audited annual financial statements in accordance with the (GAAP). | | | | | |
| 2. | Disclosure of capital adequacy position on a regular basis. | | | | | |
| 3. | Disclosure of information related to its asset quality. | | | | | |
| 4. | Disclosure of information on its exposures | | | | | |
| 5. | Disclosure of information about its branch network | | | | | |
| 6. | Disclosure of information related to customer service, such as grievance redressal mechanisms and customer | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | complaints. | | | | | |
| 7. | Check on the work of the internal and external auditors and independent check on the information received from management. | | | | | |
| 8. | The inter-branch accounts/branch adjustment accounts or bank reconciliation statements. | | | | | |
| 9. | Effective use of internal and external auditors, compliance and legal functions and overseeing banks' risk management and control systems. | | | | | |
| 10 | Risk management committee oversees the bank's risk management system/risk policy | | | | | |
| 11. | Board of management includes independent directors with special knowledge and practical experience. | | | | | |
| 12. | Attendance and participation of professional directors in audit committee meetings | | | | | |
| 13. | Decision-making processes are open to scrutiny (Due diligence and safeguards). | | | | | |
| 14. | The CEO certifies prudently all reports | | | | | |
| 15. | Inspection and quality of audit | | | | | |
| 16. | Appointment of internal auditors | | | | | |
| 17. | Accountability policy approved by the BOD –BoDs | | | | | |
| 18. | Accountability policy approved by the BOD – Staff | | | | | |
| 19. | Information and cyber-security policy | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 20. | Compliance department/officer exists and reports directly to the board/CEO. | | | | | |
| 21. | Management of the bank has enough frameworks and ensures compliance with all applicable laws. | | | | | |
| 22. | Board is approving HR Policy consisting of qualifications, selection, transfer, training, remuneration etc. exists in the bank. | | | | | |
| 23. | Bank is having CEO with board approved qualifications. | | | | | |
| 24. | Regular training is provided by the bank to BoDs. | | | | | |
| 25. | Regular training provided by the bank to Employees | | | | | |
| 26. | Encouraging innovation, adopting best practices and staying well-informed of emerging trends and technologies. | | | | | |
| 27. | Review processes and policies to identify areas for enhancement. | | | | | |
| 28. | Regards in exercising of corporate governance in the banks. | | | | | |
| 29. | Both off-site and on-site examination and surveillance is really vigilant. | | | | | |
| 30. | Supervising and regulating the bank through CRR/SLR/Loan and Investment Exposure Standards/ KYC/ AML etc. | | | | | |
| 31. | Highest standards of regulatory scrutiny to prevent the banking distress is satisfactory | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 32. | Amendment in BR Act, application of SARFESI Act etc. to the effective management. | | | | | |
| 33. | RBI does not enjoy the same powers to regulate UCBs as in case of banking companies, especially in matters relating to governance and resolution. | | | | | |
| 34. | The duality of control/regulation is one of the main hindrances for the more effective management. | | | | | |
| 35. | The RCS/CRCS and the cooperative department officers are professionally qualified | | | | | |
| 36. | The role of RCS/CRCS ensures proper control (through administrative, elections, auditing related matters) | | | | | |
| 37. | Auditors appointed from the panel of RCS/CRCS are professionally competent and rigorously trained | | | | | |
| 38. | Effectively management of costs, as indicated by the proportion of total expenses relative to total income. | | | | | |
| 39. | Strong competence in utilizing available deposits by effectively converting them into high-earning advances. | | | | | |
| 40. | Expertise in generating income from non-interest sources - ability to diversify income streams | | | | | |
| 41. | Operating efficiently with a smaller workforce, reflecting the | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | effectiveness of its operational management. | | | | | |
| 42. | Adequate buffer of own funds against risk-weighted assets, demonstrating efficiency in risk management and capital adequacy. | | | | | |
| 43. | Effective governance and Professional management practices significantly enhances the financial performance (NIM). | | | | | |
| 44. | External control and oversight contribute to thereby positively impacting the NIM. | | | | | |
| 45. | Effective governance and Professional management practices significantly enhances the financial performance (ROA). | | | | | |
| 46. | External control and oversight contribute to thereby positively impacting the ROA. | | | | | |

# LIST OF PUBLICATIONS

1) The research paper entitled “Managerial effectiveness And Bank Performance In Urban Cooperative Banks In India - A Conceptual study” published in Madhya Bharti- Humanities and Social Sciences,Vol-84 No. 09-December2023,ISSN: 0974-0066,UGC Care Group I journal;

2) A research paper entitled” Determinants of Managerial Effectiveness and Bank Performance-A Conceptual Study with Special Reference to Scheduled Urban Cooperative Banks in India published in Journal of Informatics Education and Research, Vol 4 Issue 2 (2024);

# PARTICIPATION IN INTERNATIONAL CONFERENCES

1. Presented research paper entitled "Managerial Effectiveness and Bank Performance– A Conceptual Study with Special Reference to Scheduled Urban Cooperative Banks In India" at 4th International Conference on Innovation in Management & Information Technology Organized by International Institute of Management Science (IIIMS): 5-6 April 2024.

2. Participated and Presented in International Conference on Innovation, Disruption and Digital Transformation: A Global Perspective 2024 conducted by Sinhgad Institute of Management And Computer Application in Online mode on 30 April 2024.

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