

## Evaluation of Retail Products Performance of Listed Banking and Financing Companies of Bangladesh

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### Abstract

*Nowadays, financial institutions, specifically banking, leasing, financing & investing institutions, are expanding their corporate exposure through retail operations as a new dimension. Corporate retail business of these institutions depends largely on proper handling of these retail products and services operations. For that reason, the financial institutions have taken many promotional activities on both internal and external grounds. Here these activities are arranged within 10 (ten) distinct measurable retail activities such as Retail savings products (various deposit schemes such as DPS, monthly benefit, education savings, deposit double etc.), Retail consumer credit schemes (such as car loan, home loan, personal loan, educational loan, travel loan, loan against salary, lease etc.), SME (small and medium enterprise) products, Evening banking/service of this institution, Electronic business/ Electronic banking, Online banking/service, Research and development on retail products, IT development for maintaining the records of those retail products, Agricultural and rural credit policy and Different card services (such as ready cash, Q-cash, ATM card, Credit card etc.). These retail activities have been segregated into 3 (three) categories: category 1 (most frequently used), category 2 (frequently used) and category 3 (less frequently used). It was found that these three categories of retail activities could explain 74.75% of total variability of corporate retail performance. The findings also suggest that at present the first two categories of retail activities influence corporate retail products performance most significantly.*

**Keywords:** *Corporate retail products, performance, banking and financing company.*

### Introduction

Retail products operation is the largest business line in the banking as well as investing, financing and leasing institutions with a different asset-liability structure. Although retail products operation is more costly than corporate operation both in terms of operational expenses and credit expenses, a combination of higher lending rates and fees more than compensates more than these additional expenses. Retail banking shows many aspects of a network business in which physical presence is very important. It is characterized by significant fixed costs of operation, including branches, ATMs and information and communications technology (ICT) and infrastructure.

The basic differentiator in today's market is service quality. In general, service quality promotes customer satisfaction and stimulates intention to return (Beidokhti et al, 2008). Expanding

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payment system interconnection and improving the retail payments mix would also increase banking system and the overall financial sector competition and efficiency. While technological platform for large-value transactions is fully operational and follows best international practices, there is ample room for improvement in the sufficiency of retail payment systems and instruments.

In this article, the authors studied retail products operation of listed financial companies of Bangladesh to determine the retail products performance in this sector, the procedure of enhancement of retail products operation and retail products performance in the financial companies of Bangladesh. To achieve this objective, the authors focus, *firstly*, on the theoretical part of retail products operation-different measurement activities, *secondly*, on methodology i.e. procedure of data collection and measurement techniques, *thirdly*, on analysis-factor analysis, regression analysis and findings the most significant determinant of retail operation performance and *finally*, on concluding remarks.

## **Literature Review**

### **Retail Operations**

In global scenario, retail banking started in the 1960's and in Bangladesh retail banking emphasis started by Sonali Bank through BIKALPA in the early 1990's. So retail banking is not very new in Bangladesh. But there is no agreed upon definition among analysts or bankers. In annual reports and other financial statements, large commercial banks frequently report results for retail-oriented business segments that include consumer deposit-taking and lending and small business financial services. Though retail banking of banking industry is a more competitive area nowadays than before, there should be clear understanding about the concept and operation of retail banking for all banks (Yeshmin et al. 2007). Hirtle and Stiroh (2005) proposed a broad definition of retail banking that encompasses deposit-taking, lending, and other financial services provided to consumers and small businesses through all delivery channels, including branches, loan offices, call centers, and the internet. Their definition encompasses national consumer credit businesses. The diversity of customers, products and services, and delivery channels covered by this definition suggests that a meaningful metric of retail banking intensity should be similarly broad. The other financial institutions such as financing, investing and leasing institutions are incorporated into the various retail operating activities. These financial institutions have already been performing better in their respective sector.

Now-a-day evening service as a retail service is emerging in the financial sector. The banking companies are providing not only day services but also evening banking services to customers. The other financial institutions are also taking steps to launch this service to their customers.

Electronic means of delivering banking services have been widely used by banks as an alternative service/sales channel to traditional banking (Nath et al., 2001). From different studies, it was found that in the developed countries, various retail activities are provided to customers through

e-banking. Significant advantages of e-banking including cut-down transaction costs (ECB, 1999), decreased front-office staffing needs and elimination of time/place constraints (Polatoglu and Ekin, 2001; Howcroft et al., 2002; Pikkarainen et al., 2004). As customers become more demanding, e-service delivery appears to be implicit for banks in their quest to increase customer base and encourage loyalty (Lee and Lin, 2005; Semeijn et al., 2005). So, a consequence of advances in technology-based service delivery, e-banking has influenced the ever increasing competition in the financial service sector (Sathye, 1999; Banks, 2001).

Yeshmin et al.(2007) pointed out that there was a need of constant innovation (research and development) in retail banking. They also opined that in bracing for tomorrow, a paradigm shift in bank financing through innovative products and mechanisms involving constant upgradation and revalidation of the banks' internal systems and processes, was called for.

In this article, R&D or innovative investment generally reflects future performance. The phrase research and development (R&D), according to the Organization for Economic Co-operation and Development, refers to "creative work undertaken on a systematic basis in order to increase the stock of knowledge, including knowledge of man, culture and society, and the use of this stock of knowledge to devise new applications "[URL: ([http://en.wikipedia.org/wiki/Research\\_and\\_development](http://en.wikipedia.org/wiki/Research_and_development)) last access date 15<sup>th</sup> February, 2010]. Academics across a number of businesses and social fields agree that innovation is extremely important for business organizations in both administrative and new product concepts (Frambach and Schillewaert, 2002). In operational context, firm innovativeness has been characterized as working against short-term efficiencies, due to unpredictable time and resource commitments and uncertain outcomes (Boulding, Morgan and Staelin, 1997). This innovative (that is research and development) activities could significantly influence increasing performance of any sector.

The expansion of middle class in Bangladesh is a significant contributory issue toward the retail sector. Increase in consumer purchasing power coupled with more liberal attitudes to personal loan, is contributing to Bangladesh's Retail Banking Segment (Yeshmin et al., 2007).

In this study, the authors attempted to take the previously discussed indicators as variables such as Retail savings products(various deposit schemes such as DPS, monthly benefit, education savings, deposit double etc.), Retail consumer credit schemes(such as car loan, home loan, personal loan, educational loan, travel loan, loan against salary, lease etc.), SME(small and medium enterprise) products, Evening banking/service of this institution, Electronic business/Electronic banking, Online banking/service, Research and development on retail products , IT development for maintaining the records of those retail products, Agricultural and rural credit policy and Different card services(such as ready cash, Q-cash, ATM card, Credit card etc.). It also wanted to show the perception about the good performance of those retail products. Since some products are interrelated, the authors did factor-analysis to get grouped components to measure performance.

### **Methodology of the study**

A survey methodology was developed to capture information from the key informants of banking, financing, leasing and investment organizations. The respondents were selected to provide better information of their respective institutions. Besides this, some outlays were also collected to know the retail products of the institution.

### **Sample Size**

This study is done on 35 listed banking and financial companies out of 50 of listed banking and financial institutions in Stock Exchange – of which 26 were listed banking companies out of 29 of that listed banking companies and 9 listed financing, investing and leasing companies out of 21 of that listed financing, investing and leasing companies. So, percentage covered for explaining listed banking companies was 89.66% and that of listed financing, investing & leasing companies was 42.86%.

### **Data Collection**

This study is an empirical research. The required data was collected by providing a structured survey questionnaire to each individual (senior executives of management level) of the financial institutions. This study was purposive and non-probabilistic in nature. Those who responded on the questionnaire were taken as samples of the study. For literature review and other purposes, different books, articles, manuals, websites and other secondary data were consulted and reviewed.

### **Data Analysis Procedure**

Survey questionnaire was based on 5 point Likert measurement scale where 1 represents Poor, 2 represents Below Average, 3 represents Average, 4 represents Above Average and 5 represents Excellent. In this study mean score has been used to measure the relative significance of the retail products and services operation performance based on their usage level. Varimax component matrix has been conducted to measure the variability of the retail products and services operation in measurement of corporate retail performance. Lastly, multiple regression models have been applied to measure the significant influence of the retail products and services operation in measurement of corporate retail performance of the financial institutions.

### **Analysis and Findings**

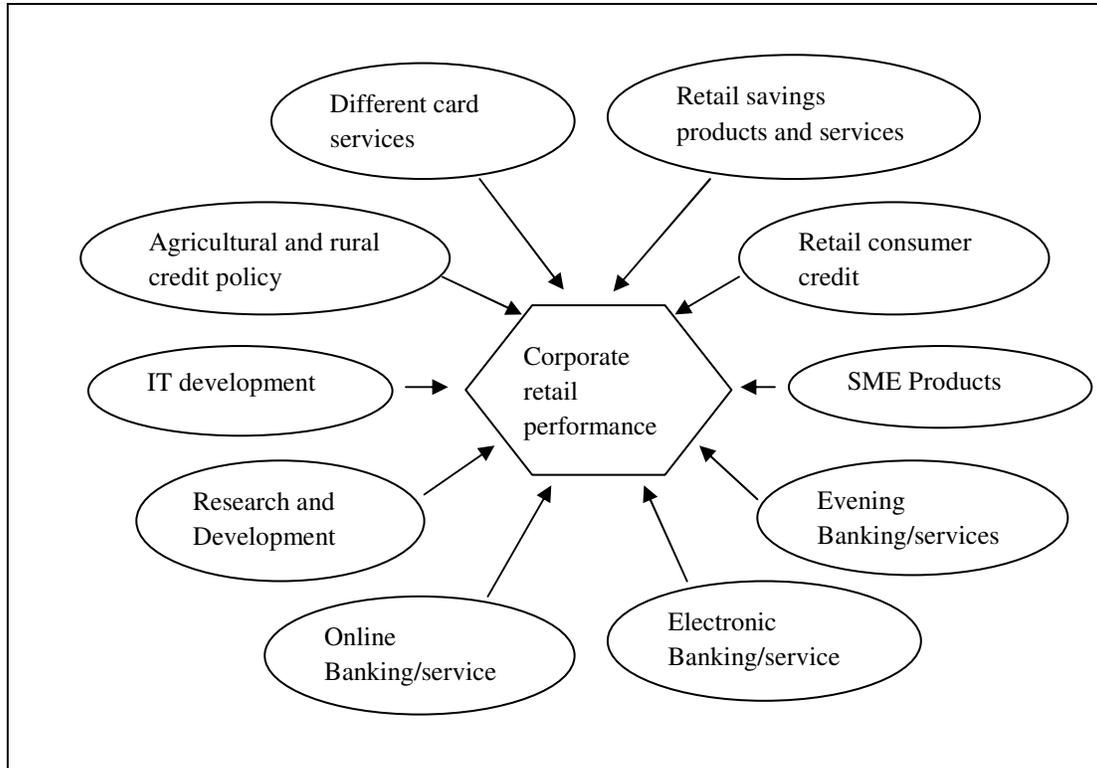
This study has exposed the influence of retail operation in measurement of corporate retail performance of financial institutions. For this purpose, the authors have taken 35 financial institutions. In order to measure influence of retail products operation in measurement of corporate retail products performance, the authors have used Likert measurement scale. The respondents were asked to give tick marks along with the five scale continuum regarding

perception of corporate retail products performance of the financial institutions. Individual mean score has been measured to analyze the relative significant corporate retail performance on retail products and services operation of banking and financing companies of Bangladesh (Table – 1).

**Table 1: Relative Significant Measurement of Retail Activities on the Basis of Mean Value**

<b>Relative significant measurement of retail activities</b>	<b>Mean</b>
Retail savings products (various deposit schemes such as DPS, monthly benefit, education savings, deposit double etc.)	3.77
Retail consumer credit schemes (such as car loan, home loan, personal loan, education loan, travel loan, loan against salary, lease etc.)	3.77
SME(small and medium enterprise) products	3.40
IT development	3.34
Online banking/service	3.11
Different card services (such as ready cash, Q-cash, ATM card, Credit card etc.)	3.09
Electronic business/ Electronic banking	2.83
Research and development	2.77
Agricultural and rural credit policy	2.57
Evening banking/service of this institution	2.54

Among the mean score of 10 quantitative measurements for corporate retail products performance perceptions, the authors have found the financial institutions frequently applying Retail savings products (various deposit schemes such as DPS, monthly benefit, education savings, deposit double etc.) and Retail consumer credit schemes (such as loan-car, home, personal, education, travel, salary, lease etc.), both of whose mean value is 3.77. The financial institutions recently concerned on SME (small and medium enterprise) products (mean value is 3.40) and IT development (mean value is 3.34). The next mean ranking activities are On-line banking/service (mean value is 3.11) and Different card services (such as ready cash, Q-cash, ATM card, Credit card etc.) (mean value is 3.09). On the other hand, the last two measurement retail activities are Agricultural and rural credit policy (mean value is 2.57) and Evening banking/service (mean value is 2.54). Although mean value of Electronic business/ Electronic banking is only 2.83, it is considered as overall performance measurement perception for financial institutions now-a-days. The reason is that E-business includes IT development, On-line banking/service and Different card services.

**Figure 1: Activities affecting corporate retail products performance**

In this analysis, we have used 10 measurement activities (Table 2) for the factor analysis. We identified three categories (Table 2) in terms of Eigen value of larger than 0.4 for application level of retail products and services in measuring corporate retail performance of financial institutions. These three categories can explain 74.75 % of the total variability in the application of corporate retail products performance measurement of banking and financing companies.

**Table 2: Selection of Categories for Corporate Retail Products Performance of Banking and Financing Companies of Bangladesh**

	Categories*		
	1	2	3
Retail savings products (various deposit schemes (such as DPS, monthly benefit, education savings, deposit double etc.)	0.817		
IT development	0.817		
Research and development	0.765		
SME(small and medium enterprise) products	0.746		
Retail consumer credit schemes (such as car loan, home loan, personal loan, education loan, travel loan, loan against salary, lease etc.)	0.661		
Electronic business/ Electronic banking		0.851	
Online banking/service		0.794	
Different card services (such as ready cash, Q-cash, ATM card, Credit card etc.)		0.774	
Evening banking/service of this institution		0.729	
Agricultural and rural credit policy			0.862
% of variance explained	32.20	30.96	11.59
Cumulative % of variance explained	32.20	63.16	74.75

\*Retail Activities Categories-

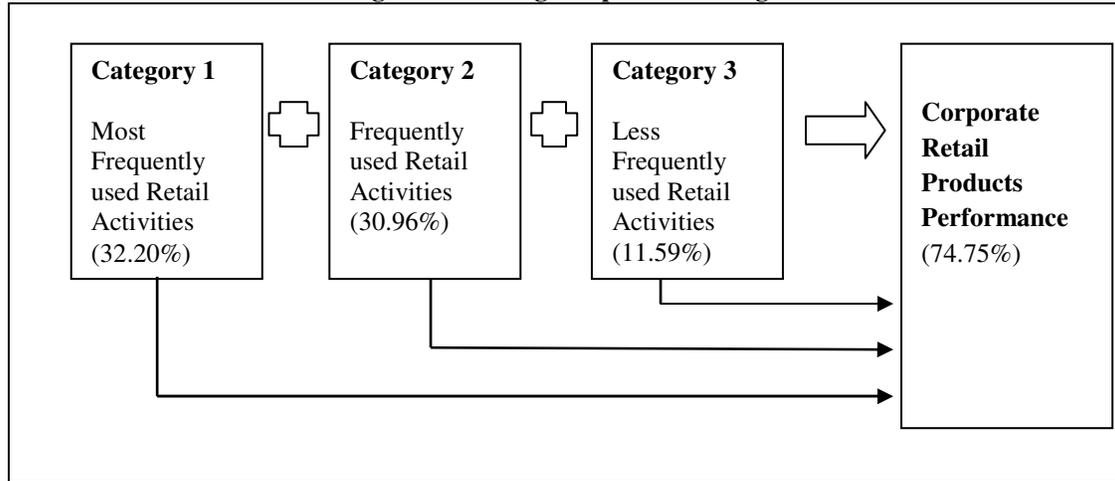
Category 1: Most frequently used

Category 2: Frequently used

Category 3: Less frequently used

The *first* category i.e. the most frequently used retail activities as the highest loadings can alone explain 32.20% of the total variability of application related to five measurement activities pertaining to Retail savings products (various deposit schemes such as DPS, monthly benefit, education savings, deposit double etc.), IT development, Research and development, SME (small and medium enterprise) products and Retail consumer credit schemes (such as loan-car, home, personal, education, travel, salary, lease etc.).

**Figure 2: Categories and its explained variability of corporate retail products Performance of listed banking and financing companies of Bangladesh**



The *second* category i.e. frequently used retail activities exhibits largely loadings for four measurement activities which are relating to Electronic business/ Electronic banking, Online banking/service, Different card services (such as ready cash, Q-cash, ATM card, Credit card etc.) and Evening banking/service. This category can alone explain 30.96% of the total variability of application.

The *third* category i.e. less frequently used retail activities having been defined by one measurement activity is Agricultural and rural credit policy and this can settle 11.59% of the total variability of corporate retail products performance. So, these three categories altogether can explain 74.75% variability (Figure 2) of total corporate retail products performance.

Now the authors were trying to find out the level of significance of retail products and services in corporate retail products performance measurement. In this regard regression analysis has been done to show the significance (Table 4). The regression result shows that three categories i.e. category 1: Most Frequently used, category 2: Frequently used and category 3: Less Frequently used retail activities can explain 58.7% (Table 3) of total variability in corporate retail products performance of listed banking and financing companies. It was observed that two measured categories of retail activities (Table 5) are significant for corporate retail products performance of listed banking and financing institutions. The result (Appendix – I) shows that among three categories of retail activities, category 1: Most frequently used retail activities, is significant at 1% level and category 2: Frequently used retail activities, is significant at 5% level.

**Table 3: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.790 <sup>a</sup>	0.624	0.587	0.649
a. Predictors: (Constant), REGR category score 3 for analysis 1, REGR category score 2 for analysis 1, REGR category score 1 for analysis 1				
b. Dependent Variable: Perception of corporate retail products performance of listed banking and financing companies of Bangladesh				

**Table 4: ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	21.634	3	7.211	17.129	0.000 <sup>a</sup>
	Residual	13.051	31	0.421		
	Total	34.686	34			
a. Predictors: (Constant), REGR category score 3 for analysis 1, REGR category score 2 for analysis 1, REGR category score 1 for analysis 1						
b. Dependent Variable: Perception of corporate retail products performance of listed banking and financing companies of Bangladesh						

**Table - 5: Significance of Categories in Corporate Retail Products Performance**

Categories	Standardized coefficient	Significance
REGR category score 1 for analysis 1	0.740	0.000*
REGR category score 2 for analysis 1	0.271	0.019**

\*significant at 1%

\*\*significant at 5%

From the regression results, it can be concluded that among the 3 (three) influential categories of retail activities, category 1: most frequently used retail activities/operations, is the most significant retail activity for determining corporate retail products performance of listed banking and financing companies. It can be added that category 2: frequently used retail activities is also significant retail activity for determining corporate retail products performance of listed banking and financing companies. It also can be noted that other than these categories, the remaining category 3: less frequently used retail activity, exerts insignificant influence on corporate retail

products performance since at present all financial institutions are not giving equal importance on Agricultural and rural credit policy to determine corporate retail products performance.

### **Summary and Conclusion**

Retail products operation is the largest business line in the banking as well as the investing, financing and leasing companies. From different studies, the authors found that these retail products in banking companies are - Retail savings products (various deposit schemes such as DPS, monthly benefit, education savings, deposit double etc.), Retail consumer credit schemes (such as car loan, home, personal loan, education loan, travel loan, loan against salary, lease etc.), SME (small and medium enterprise) products, Evening banking/service, Electronic business/ Electronic banking, Online banking/service, Research and development, IT development of this retail operations and Different card services (such as ready cash, Q-cash, ATM card, Credit card etc.). Now-a-day the emphasis is given on Agriculture and rural credit policy. These items are also applicable for investing, leasing and financing companies as they are trying to expand their businesses by providing these services to customers. So, the authors have used these 10 (ten) retail activities as measurement criteria for corporate retail products performance and its enhancement. This survey and test analysis has been done by the authors on 89.66% of total listed banking companies and that on 42.86% of total listed leasing, investing and financing companies of Bangladesh. From this survey, the authors have found some inter-related retail activities. So, they have used factor analysis to categorize these retail activities and have identified three categories which are-Category 1: Most Frequently used, Category 2: Frequently used and Category 3: Less Frequently used retail activities. Here, they have found that these three categories can explain 74.75% of total variability of corporate retail products performance. Out of these three categories, the first two categories can explain 32.20% and 30.96% of total variability respectively. Finally, from regression analysis of each of these 3 (three) category scores, the authors have proved that the first 2 (two) categories, most frequently used (significance level is 0.000) and frequently used (significance level is 0.019) retail activities have highly significant effect on corporate retail products performance. Since the authors have covered most of the listed banking and financing companies of Bangladesh, the statistical evidence provides sufficient ground to reach a decision that these two categories are the most significant indicators of corporate retail products performance of listed banking and financing companies of Bangladesh.

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## Appendices

### Appendix – I Coefficients

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
Model 1	(Constant)	3.743	0.110		34.126	0.000
	REGR category score 1 for analysis 1	0.747	0.111	0.740	6.713	0.000*
	REGR category score 2 for analysis 1	0.274	0.111	0.271	2.464	0.019**
	REGR category score 3 for analysis 1	0.055	0.111	0.054	0.494	0.625

\* significant at 1%

\*\* significant at 5%

### Appendix – II

#### List of Sampled listed Banking and Financing Companies of Bangladesh

Sl No	Name of listed bank	Sl No	Name of listed lease/investment company
1	AB Bank Limited	1	IDLC Finance Ltd.
2	Al-Arafah Islami Bank	2	Islamic Fin. & Inv. Ltd.
3	Bank Asia Ltd.	3	LankaBangla Finance Ltd.
4	BRAC Bank Ltd.	4	MIDAS Financing Ltd.
5	City Bank	5	Premier Leasing & Fin. Ltd.
6	Dhaka Bank	6	Prime Fin. & Inv. Ltd.
7	Dutch-Bangla Bank	7	Union Capital Limited
8	Eastern Bank	8	United Leasing
9	EXIM Bank of Bangladesh	9	Uttara Finance
10	First Security Islami Bank Ltd		
11	IFIC Bank		
12	Islami Bank		
13	Jamuna Bank Ltd.		
14	Mercantile Bank Ltd.		
15	Mutual Trust Bank Ltd.		
16	National Bank Limited		
17	NCCBL		
18	One Bank Limited		
19	Prime Bank		

20	Pubali Bank	
21	Rupali Bank	
22	Shahjalal Islami Bank Ltd.	
23	Social Investment Bank Ltd	
24	Southeast Bank	
25	The Premier Bank Ltd.	
26	Uttara Bank	
Total number of listed sampled Banks = 26		Total number of listed sampled lease/investment company = 9
Total number of sampled listed Financial Institutions = 35		

**Appendix – III**  
**Sample Questionnaire**

1. Name of the bank :
2. Year of establishment :
3. Year of enlistment in DSE and CSE :

<b>Performance for existing corporate retail products on the basis of trend of customers</b>	Poor	Below average	Average	Above average	Excellent
	1	2	3	4	5
1. Retail savings products (various deposit schemes such as DPS, Monthly Benefit, Education Savings, Deposit Double, Marriage Saving etc.)					
2. Retail Consumer credit scheme (such as – Car loan, SME loan, Home loan, Personal loan, Education loan, Doctors loan, Travel loan, Salary loan, lease etc.)					
3. SME(small and medium enterprise) products					
4. Evening banking/service of this institution					
5. Electronic business/ electronic banking					
6. Online banking/ service					
7. Research and development					
8. IT development					
9. Agricultural and rural credit policy					
10. Different card services(such as ready cash, Q-cash, ATM card, Credit card etc.					
11. Perception of corporate retail products performance of your institution					