

Research Dissertation

Do high returns generated by Indian Banks actually result in value creation for stakeholders; a case analysis on the Economic Value Added model

Abstract

This study is based on Economic Value Added (EVA) and the linkage of shareholder value enhancement. The research analysis indicates that the positive economic value improves the shareholder value and negative value decreases it. The assessment of financial analysis and market analysis improves the value of the company as well as business operation. The risk analysis such as WACC, Beta, cost of equity (Kce) and cost of debt (Kcd) provides the financial risk assessment to manage the invested capital of shareholder to decrease the risk level, cost of capital using and to use the capital for more efficient project with the rationalization. On the other hand, the market based analysis includes shareholder value, customer value, employee value, supplier value and societal value explain the non-financial structure to analyse their importance in the creation of product and services and during the decision making and implementing of strategy. The value management approach also includes the stakeholder analysis, value analysis, FAST analysis, risk cost benefit analysis, Pareto analysis and Process Mapping to address and analyse the value creation management process for shareholders. Therefore, all those analysis have been provided the quality of product and services that finally ultimately increase the shareholder value.

Table of Contents

Abstract.....	2
CHAPTER 1; INTRODUCTION	5
1.1: Introduction.....	5
1.2; BACKGROUND STUDY	7
1.3; Statement of the problem.....	10
1.4; Rationale of the research.....	11
1.5; Research questions.....	12
1.6; Research aims and objectives	12
1.7; Research structure.....	13
CHAPTER 2; LITERATURE REVIEW	14
2.0 INTRODUCTION	14
2.1: Overview of Banking system in India	14
2;2; measuring Performance Measurement/value creation in banks.....	22
2.3; Analysis on the Economic Value Added (EVA)	25
2.4; Benefits of EVA System for Banks	27
2;5; USE of EVA on Indian Banks	29
2.5; Creating Value for Stakeholders in Banks.....	43
2.6; Different Types of stakeholder Value for Business.....	46
2.7; Principle of Value Creation	52
2.8; Value Management Approach	54
2.9; Stakeholder Analysis	55
2.10; Value Analysis.....	56
CHAPTER 3; RESEARCH METHODOLOGY	58
3.0; INTRODUCTION	58
3.1; Qualitative and quantitative data collection (Mixed method).....	58
3.2; Data Collection Methods	60
3.3; Secondary data collection.....	60
3.5; Reliability, Validity and Ethics and Limitation of this research.....	60
CHAPTER 4; DISCUSSION AND ANALYSIS	61
4.0; INTRODUCTION	61

4.1; Objective 1; Do high returns generated by Indian Banks actually result in value creation for stakeholders.....	61
4.2; Objective 2; How does the Economic Value Added model contribute to value creation to stakeholders.....	64
4.3; Objective 3; how can a bank create value for stakeholders.....	66
Cost Benefit Analysis	68
4.4; Conclusion.....	69
CHAPTER 5; CONCLUSION, RECOMMENDATION AND FINDINGS.....	70
5.0; INTRODUCTION.....	70
5.1; Conclusion.....	70
5.2; Key Findings	71
5.2; Recommendations	71
5.4; Implications for future research	72

LIST OF FIGURES AND TABLES

1.1.1. Table 1; Analysis on the performance of seven Indian banks	31
1.1.2. Figure 1; Incremental NOPAT in Indian Banks	32
1.1.3. Table 2; investment capital in Indian Banks	33
1.1.4. Figure 2; Incremental Invested Capital in Indian Banks	34
1.1.5. Table 3; NOPAT / Invested capital In Indian banks	36
1.1.6. Table 4;Beta analysis on Indian Banks	37
1.1.7. Table 5; cost of equity in Indian Banks	38
1.1.8. Table 6; Cost of debt for Indian Banks	40
1.1.9. Table 7 ; Cost of Capital (WACC) in Indian Banks	41
Figure 3; Economic Value Added and Indian banks	42
1.1.10.....	

Abbreviations and key words

Weighted average cost of capital (WACC)

Economic Value Added (EVA)

Net Operating Profit after Tax (NOPAT)

Stakeholders

Value

CHAPTER 1; INTRODUCTION

1.1: Introduction

Nowadays, more than ever, organizations are under constant pressure to show that they are creating value for their stakeholders. This can be attributed to the fact that capital markets are increasingly becoming global which means that investors can easily shift their investments to

higher yielding opportunities. Consequently, this has led to firms coming up with a number of ways to show that they are creating value for their organizations. Generally, company value is created when a company generates additional revenue and returns over the economic cost spent in generating the said revenue. Thus, it is important for a company to constantly measure the performance of their companies so as to be able to make informed and effective decisions about the future of the company.

Measuring the performance of organizations is very important as it enables a firm to know whether it is creating value for itself. . Thus Value can be destroyed, changed or created by a bank through its business model. Business model in this case is used to refer to chosen business activities, inputs and outputs, and outcomes which in the end create value over the long term, mid term or short term. There are many performance measurement models and the complexity of companies usually makes this a difficult task. Thus it is important for a company to choose a performance measurement tool which best suits their strategy and what it is trying to attain and the performance being evaluated and measured. One way that a company can exploit, use and measure their value creation is through the use of the Economic Value Added (EVA) performance metric. EVA is Economic Value Added is a measure of economic profit. It is calculated as the difference between the Net Operating Profit after Tax and the opportunity cost of invested Capital.

This opportunity cost is determined by the weighted average cost of Debt and Equity Capital (“WACC”) and the amount of Capital employed. The main reason for using the EVA performance metric is the fact that it measures all of the costs of running a business—operating and financing. This makes EVA the soundest performance metric, and the one most closely aligned with the creation of stakeholder value. Thus this research will seek to analyse whether

high returns generated by Indian Banks actually result in value creation for stakeholders using the Economic Value Added model as the case analysis.

1.2; BACKGROUND STUDY

As banks become 'capital hungry' to meet their growth expectations and simultaneously meeting the regulatory requirements in the Basel-II era, they would have to remain responsive to the expectations of the market on a risk adjusted basis to ensure continued supply of financial capital from the shareholders and human capital from the ultimate stakeholders. One of the fundamental limitations in the existing business growth strategies of Indian banks, especially public sector banks, is its virtual, if not complete, disconnect with riskiness. 'Profit rich but Risk poor' strategies are doomed for failure in the long-run! Finalization of business targets should no longer remain a mundane 'volume-mix' targeting exercise but should built-in inherent risk-return dimensions. Business strategies that ensure 'Risk & Return by Choice and not by Chance' are keys to ensure continuing success of banks in the emerging market. In order to align the performance of individual zones/regions/branches to the overall corporate expectations in terms of EVA, the vocabulary of risk management has to percolate down the hierarchy of banks to the individual unit level. New performance benchmarks in the form of EVA should naturally form the unifying cord/link in every bank.

Value created by firms especially banks is not constant and thus it changes over time. This can be attributed to the constant market innovations being witnessed and the implementations made by the numerous organizations. Thus value creation more so for stakeholders increases when innovations made by a bank increases and the customer has more willingness to pay for the goods and services offered. For example in this case, the if the product quality increases, then the products/ services improves too, or on the other hand if the cost of supply decreases in an effort

to embrace alternative and cheaper distributions like the internet. Despite the fact that the main aim of many banks is to create overall value, relationships and resources which are commonly referred to as the different kinds of capital can be depleted or destroyed when conducting business. Thus it is important in this case in value creation not only to imply the potential or actual value but also depletion or destruction of value. Thus Value can be destroyed, changed or created by a bank through its business model. Business model in this case is used to refer to chosen business activities, inputs and outputs, and outcomes which in the end create value over the long term, mid-term or short term. Thus in this case, value creation is done through the firm's business model which is involved in taking its input from available capital and transforming it through the business interactions and activities into outcomes and outputs which over the long, medium and short term can either destroy or create value for the company's stakeholders. It is important to note that the capital referred to in the business model takes input as natural, relationship, social, human, intellectual, manufactured and financial capital. Thus the capital is a representation of the stores from where value is released if the capitals are merged, transformed and used through the company's business interactions and activities so as to produce outcomes and outputs which present either the destruction or creation of value for the stakeholders depending on their perspectives. In assessing value creation, the interdependencies between the firm's performance and competitiveness and natural environment and supply chain and stakeholders effects on whatever is drawn away from it. Thus in assessment of value creation in stakeholders, it is important for the report to enable financial capital providers to assess to what extent, how and whether the business model used by the organisation threatens or supports value creation/finance value in either a long, medium or short term.

The performance of a bank gets reflected on its valuation by the capital market. Market valuation reflects investor's perception about the current performance of the bank and also their expectation on its future performance. They build their expectations on the estimated growth of the bank in terms of return on capital. This results in incongruence between current performance and the value of the bank. Even if the current performance is better in relative terms, poor growth prospects adversely affects the value of the bank. Therefore any metric of performance, to be effective, should be able to not only capture the current performance but also should be able to incorporate the direction and magnitude of future growth. Therefore the robustness of a measure is borne out by the degree of correlation the particular metric has with respect to the market valuation.

A bank's present value should equal its invested capital plus the present value of future EVA and if the bank's present value is lower, the stock is undervalued and vice versa. Value of a bank's share is also said to equal the market value of assets and the sum of EVAs of all future periods discounted back to the present. A bank once it reaches a period when it no longer earns a return on its incremental investments greater than its cost of capital, from this period onward no EVA is added or destroyed from new investments. While competitive forces are likely to drive returns to WACC for Indian banks, the emergence of indifference vary from bank to bank and is determined by several factors such as industry structure, a bank's position in the industry, capital spending for strategic investments etc. A bank's invested capital multiplied by WACC gives the minimum level of operating profits the bank should generate to satisfy shareholders

EVA can be an important tool that bankers can use to measure and improve the financial performance of their bank. Since EVA takes the interest of the bank's shareholders into consideration, the use of EVA by bank management may lead to different decisions than if

management relied solely on other measures. As mentioned earlier an important difference between banks and others is the role of debt. For other firms debt is a part of the financing operations and interest expenses are excluded from Net Operating Profit after Taxes (NOPAT) so that returns are unlevered. A bank's debt funding is effectively the raw material which is intermediated into higher yielding assets. Interest expense, on this view, is equivalent of the cost of goods sold. This has an important consequence. In our analysis NOPAT for each year was therefore arrived at after adding interest on RBI loans and other loans to Profit before Depreciation and Taxes less Cash Taxes. The component of cash taxes represented as if banks were debt free. In order to calculate cash taxes, tax shield on the interest paid on RBI loans and others were added back to Tax Provision and tax paid on other incomes were deducted from tax provision of the year. A tax rate of 30% per year was assumed for maintaining consistency over years in our analysis. The economic capital of a bank is defined as the shareholders' funds plus reserves excluded from equity, such as loan losses or contingency reserve which in economic terms, function as capital. In this fund total long term borrowings of the bank are added to arrive at the Invested Capital (IC).

1.3; Statement of the problem

When the world was facing the Economic Crisis of 2008, when the giants of financial markets like Lehman Brothers, Citibank, etc. were reeling on their knees, and demanding re-capitalization from the federal government, amidst all this chaos, the Indian Banks were unperturbed and faced the economic storm without much sweat. Now, that the economic scenario is turning green again, and massive amounts of FDI are going into BRICS countries. With a lot of this FDI from West ending up in the financial institutes of India, it would be wise to wonder whether these banks are actually creating any stakeholder value or all of this is just one

big phony ride which the world capital is riding on. Due to the profound interest in the Value management and banking industry, in particular, maximizing value creation for the stakeholders of a company, it is important to analyse how the big Indian Banks are performing on the parameter of value creation for stakeholders. Specifically, emphasis will be on the bank's Economic Value Added (EVA), interpreting it and using it to understand how it can be improvised upon.

1.4; Rationale of the research

Though India along with China is portrayed as investment darlings of the world, still their regulatory norms are still not regularly enforced. India is yet to implement Basel III norms into their banking system, reason for delay, widely believed, is incompatibility of the banks to enforce such strict capital and other requirements into their system. This goes on to show that the Indian Banks and corresponding Indian economy are weak within. Said that, the growth rates that the country is generating are stratospheric and the rapid development path is also quite palpable. With one of the highest deposit rates offered to the customers, mandatory Priority sector lending (40% loans to depressed classes, minorities, and women) is also a big anchor on their balance sheets, whose payback is often not guaranteed. A bank once it reaches a period when it no longer earns a return on its incremental investments greater than its cost of capital, from this period onward no EVA is added or destroyed from new investments. While competitive forces are likely to drive returns to WACC for Indian banks, the emergence of indifference vary from bank to bank and is determined by several factors such as industry structure, a bank's position in the industry, capital spending for strategic investments etc. A bank's invested capital multiplied by WACC gives the minimum level of operating profits the

bank should generate to satisfy shareholders. “How does value management in marketing aid in increasing productivity, profitability and eventually value for all the stakeholders associated with a business or organization?”

It is vital to have information about the way to increase the value and wealth of the shareholder to remain in the industry. This study will describe the marketing and finance methods to use in the banking sector and to build long term relationship with customer in order to enhance the market share and profitability. Thus it is important to carry out this study as not only does it enable one to understand the implications of creating value to stakeholders through the increase in revenue and how the business model in this case EVA impacts on the value created for the stakeholders.

1.5; Research questions

In order to be able to fulfil the aim of this study, several research questions will be answered.

They include;

- Do high returns generated by Indian Banks actually result in value creation for stakeholders?
- How does the Economic Value Added model contribute to value creation in firms?
- How is value created to stakeholders in banks?

1.6; Research aims and objectives

The main aim of this study is to understand

- If high returns generated by Indian Banks actually result in value creation for stakeholders.
- In addition to that, a case analysis on the Economic Value Added model will also be carried out so as to understand its contribution to value creation to stakeholders in the company.
- Creating value for stakeholders in a company will also be analyzed

1.7; Research structure

This research consists of five chapters and is structured as follows:

Chapter One: Introduction. This chapter will discuss the research background. This is attained by defining the research problem, rationale of the research and the research aim and objectives.

Chapter Two: Literature review. This chapter reviews the literature in terms of Do high returns generated by Indian Banks actually result in value creation for stakeholders; a case analysis on the Economic Value Added model

Chapter Three: Research Methodology. This chapter presents the methodology approach. The chapter analyses the methods used in affirming the research questions

Chapter Four: Data Analysis and Findings. This chapter analyses the key findings of the research based on the research methodology used

Chapter Five: Conclusions and Recommendations. This is the last chapter and covers conclusions and recommendations. It summarizes the whole research and makes analysis on the future implications of this research

CHAPTER 2; LITERATURE REVIEW

2.0 INTRODUCTION

This section will seek to provide a complete analysis and overview on the high returns generated by Indian Banks actually result in value creation for stakeholders; a case analysis on the Economic Value Added model. An overview on the banking system will be provided, the use of the EVA model and its implications in banks, and creation of value for stakeholders will be analyzed

2.1: Overview of Banking system in India

The major participants of the Indian financial system are the commercial banks, the financial institutions (FIs), encompassing term-lending institutions, investment institutions, specialized

financial institutions and the state-level development banks, Non-Bank Financial Companies (NBFCs) and other market intermediaries such as the stock brokers and money-lenders. The commercial banks and certain variants of NBFCs are among the oldest of the market participants. The FIs, on the other hand, are relatively new entities in the financial market place. Bank of Hindustan, set up in 1870, was the earliest Indian Bank. Banking in India on modern lines started with the establishment of three presidency banks under Presidency Bank's act 1876 i.e. Bank of Calcutta, Bank of Bombay and Bank of Madras. In 1921, all presidency banks were amalgamated to form the Imperial Bank of India. Imperial bank carried out limited central banking functions also prior to establishment of RBI. It engaged in all types of commercial banking business except dealing in foreign exchange. Reserve Bank of India Act was passed in 1934 and Reserve Bank of India (RBI) was constituted as an apex bank without major government ownership. Banking Regulations Act was passed in 1949. This regulation brought Reserve Bank of India under government control. Under the act, RBI got wide ranging powers for supervision & control of banks. The Act also vested licensing powers & the authority to conduct inspections in RBI. In 1955, RBI acquired control of the Imperial Bank of India, which was renamed as State Bank of India. In 1959, SBI took over control of eight private banks floated in the erstwhile princely states, making them as its 100% subsidiaries.

RBI was empowered in 1960, to force compulsory merger of weak banks with the strong ones. The total number of banks was thus reduced from 566 in 1951 to 85 in 1969. In July 1969, government nationalized 14 banks having deposits of Rs.50 crores & above. In 1980, government acquired 6 more banks with deposits of more than Rs.200 crores.

Nationalization of banks was to make them play the role of catalytic agents for economic growth. The Narsimham Committee report suggested wide ranging reforms for the banking sector in 1992 to introduce internationally accepted banking practices.

State Bank of India

State Bank of India (SBI) is a multinational banking and financial services company based in India. It is biggest bank in India in terms of assets. It is a government-owned corporation with its headquarters in Mumbai, Maharashtra. As of December 2013, it had assets of US\$388 billion and 17,000 branches, including 190 foreign offices, making it the largest banking and financial services company in India by assets. State Bank of India is one of the Big Four banks of India, along with ICICI Bank, Punjab National Bank and HDFC Bank.

The bank traces its ancestry to British India, through the Imperial Bank of India, to the founding in 1806 of the Bank of Calcutta, making it the oldest commercial bank in the Indian Subcontinent. Bank of Madras merged into the other two presidency banks - Bank of Calcutta and Bank of Bombay - to form the Imperial Bank of India, which in turn became the State Bank of India. Government of India owned the Imperial Bank of India in 1955, with Reserve Bank of India taking a 60% stake, and renamed it the State Bank of India. In 2008, the government took over the stake held by the Reserve Bank of India.

Indian Overseas Bank

Indian Overseas Bank is a major bank based in Chennai, with about 3350 domestic branches, 3 extension counters and six branches overseas as of 31 March 2012. Indian Overseas Bank has an ISO certified in-house Information Technology department, which has developed the software that 3257 branches use to provide online banking to customers; the bank has achieved 100%

networking status as well as 100% CBS status for its 3350 branches. The bank's business more than doubled in the last four years.

The net profit for the year ended 31 March 2012 stood at Rs 10501 million. Total income stood at Rs 195781 million as against Rs 133265.6 million registered during the same period last financial year. For the full year, the total business grew by 24 per cent to Rs 3,217 billion from Rs 2,590 billion. IOB has planned to achieve total business of Rs 3.85 trillion to Rs 4 trillion this fiscal.

Bank of Baroda

Bank of Baroda is an Indian state-owned banking and financial services company headquartered in Vadodara (earlier known as Baroda) in Gujarat, India. It is the second-largest bank in India, after State Bank of India, and offers a range of banking products and financial services to corporate and retail customers through its branches and through its specialized subsidiaries and affiliates. During FY 2012-13, its total business was INR 8,021 billion. In addition to its headquarters in its home state of Gujarat, it has a corporate headquarters in the BandraKurla Complex in Mumbai.

Based on 2012 data, it is ranked 715 on Forbes Global 2000 list. BoB has total assets in excess of INR 3.58 trillion (short scale), INR 3,583 billion (long scale). The bank, along with 13 other major commercial banks of India, was nationalized on 19 July 1969, by the Government of India and has been designated as a profit-making public sector undertaking (PSU). Bank of Baroda is one of the Big Four banks of India, along with State Bank of India, ICICI Bank and Punjab National Bank.

ICICI Bank

ICICI Bank is an Indian multinational banking and financial services company headquartered in Mumbai. It is the second largest bank in India by assets and by market capitalization, as of 2014. It offers a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and through its specialized subsidiaries in the areas of investment banking, life, non-life insurance, venture capital and asset management. The Bank has a network of 3,539 branches in India, and has a presence in 19 countries.

ICICI Bank is one of the Big Four banks of India, along with State Bank of India, Punjab National Bank and Bank of Baroda. The bank has subsidiaries in the United Kingdom, Russia, and Canada; branches in United States, Singapore, Bahrain, Hong Kong, Sri Lanka, Qatar and Dubai International Finance Centre; and representative offices in United Arab Emirates, China, South Africa, Bangladesh, Thailand, Malaysia and Indonesia. The company's UK subsidiary has also established branches in Belgium and Germany.

ICICI Bank was established by the Industrial Credit and Investment Corporation of India (ICICI), an Indian financial institution, as a wholly owned subsidiary in 1955. The parent company was formed in 1955 as a joint-venture of the World Bank, India's public-sector banks and public-sector insurance companies to provide project financing to Indian industry. The bank was initially known as the Industrial Credit and Investment Corporation of India Bank, before it changed its name to the abbreviated ICICI Bank.

ICICI's shareholding in ICICI Bank was reduced to 46 percent, through a public offering of shares in India in 1998, followed by an equity offering in the form of American Depositary Receipts on the NYSE in 2000. ICICI Bank acquired the Bank of Madura Limited in an all-stock deal in 2001 and sold additional stakes to institutional investors during 2001-02.

In the 1990s, ICICI transformed its business from a development financial institution offering only project finance to a diversified financial services group, offering a wide variety of products and services, both directly and through a number of subsidiaries and affiliates like ICICI Bank. In 1999, ICICI became the first Indian company and the first bank or financial institution from non-Japan Asia to be listed on the NYSE.

In 2000, ICICI Bank became the first Indian bank to list on the New York Stock Exchange with its five million American depository shares issue generating a demand book 13 times the offer size. In October 2001, the Boards of Directors of ICICI and ICICI Bank approved the merger of ICICI and two of its wholly owned retail finance subsidiaries, ICICI Personal Financial Services Limited and ICICI Capital Services Limited, with ICICI Bank. The merger was approved by shareholders of ICICI and ICICI Bank in January 2002, by the High Court of Gujarat at Ahmadabad in March 2002 and by the High Court of Judicature at Mumbai and the Reserve Bank of India in April 2002.

AXIS Bank

Axis Bank is the third largest private sector bank in India. Axis Bank offers the entire spectrum of financial services to customer segments covering Large and Mid-Corporate, MSME, Agriculture and Retail Businesses.

The Bank has a large footprint of 2402 domestic branches (including extension counters) and 12,922 ATMs spread across the country as on 31st March 2014. The overseas operations of the Bank are spread over its seven international offices with branches at Singapore, Hong Kong, DIFC (Dubai International Financial Centre), Colombo and Shanghai and representative offices at Dubai and Abu Dhabi. During the year, the Bank has upgraded its representative office in

Shanghai, China to a branch to become the first Indian private sector bank to set up a branch in China. During the year, the Bank's overseas subsidiary namely Axis Bank UK Ltd. commenced banking operations.

Axis Bank is one of the first new generation private sector banks to have begun operations in 1994. The Bank was promoted in 1993, jointly by Specified Undertaking of Unit Trust of India (SUUTI) (then known as Unit Trust of India), Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC), National Insurance Company Ltd., The New India Assurance Company Ltd., The Oriental Insurance Company Ltd. and United India Insurance Company Ltd. The shareholding of Unit Trust of India was subsequently transferred to SUUTI, an entity established in 2003.

With a balance sheet size of Rs.383,245 crores as on 31st March 2014, Axis Bank has achieved consistent growth and stable asset quality with a 5 year CAGR (2010-14) of 21% in Total Assets, 19% in Total Deposits, 23% in Total Advances and 28% in Net Profit.

YES Bank

YES BANK is a private bank in India with headquarters in Mumbai. It was founded in 2004 by promoters Ashok Kapur and Rana Kapoor, which had a collective shareholding of 29%. [5] Ashok Kapoor was killed in a terrorist attack in 2008 in Mumbai.

In 2010, the bank announced the roll-out of a strategic blueprint, named Version 2.0 of the bank, to further accelerate its business growth in the retail banking space, with the objective to achieve by 2015, a balance sheet size of INR 1,500 billion, deposits of INR 1,250 billion, advances of INR 1,000 billion, a pan India network of 900 branches and a human capital base of 12,750 by 2015. YES BANK is a major competitor in the business banking sector of the Indian economy,

especially amongst smaller- and medium-sized clients. Business banking is centered primarily on Cash Handling, Payment, Direct Banking, Liabilities and Investment, and Trade services. Retail Banking is the general branch of banking, targeted at private individuals. Customers are currently being handled by a branch network, composed of over 550+ branches across the country. YES Bank's equity shares are listed on Bombay Stock Exchange and the National Stock Exchange of India.

HDFC Bank

The Housing Development Finance Corporation Limited (HDFC) was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector, as part of the RBI's liberalization of the Indian Banking Industry in 1994. The bank was incorporated in August 1994 in the name of 'HDFC Bank Limited', with its registered office in Mumbai, India. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995. HDFC Bank Ltd. is a commercial bank of India, incorporated in August 1994, after the Reserve Bank of India allowed establishing private sector banks.

The Bank was promoted by the Housing Development Finance Corporation, a premier housing finance company (set up in 1977) of India. HDFC Bank has 1,500 branches and over 2,890 ATMs, in 530 cities in India, and all branches of the bank are linked on an online real-time basis. As of September 30, 2008 the bank had total assets of INR 1006.82 billion.

In 2008 HDFC Bank acquired Centurion Bank of Punjab taking its total branches to more than 1,000. Though, the official license was given to Centurion Bank of Punjab branches, to continue working as HDFC Bank branches, on May 23, 2008 The financial performance during the fiscal

year 2007-08 remained healthy with total net revenues (net interest income plus other income) increasing by 50.7% to Rs. 7,511.0 crores from Rs.4,984.7 crores in 2006- 07.

The revenue growth was driven principally by an increase in net interest income. Net interest income grew by 50.7% primarily due to increase in the average Balance sheet size by 39.8% and an increase in net interest margin from 4.0% to around 4.4%. The key driver in volumes was growth in advances. Margin expansion was contributed by increase in yields across all products partially offset by increase in time deposit costs.

2;2; measuring Performance Measurement/value creation in banks

Investors measure overall performance of a bank as a whole to decide whether to invest in the bank or to continue with the bank or to exit from it. In order to achieve goal congruence, managers' compensation is often linked with the performance of the responsibility centres and also with bank-performance. Therefore selection of the right measure is critical to the success of a bank. To measure performance of a bank we need a simple method for correctly measuring value created / enhanced by it in a given time frame. In other words, each method takes into consideration the degree of complexities in quantifying the underlying measure. The more complex is the process, the more is the level of subjectivity and cost in measuring the performance of the bank.

There is a continuous endeavour to develop a single measure that captures the overall performance, yet it is easy to calculate. Each metric of performance claims its superiority over others. Performance of a bank is usually measured with reference to its past record and the performance of other banks with comparable risk profile. The various performance metrics currently in use are based on the returns on investment generated by the business entity.

Therefore to reach a meaningful conclusion, returns generated by the bank in a particular year should be compared with returns generated by assets with similar risk profile (cross sectional analysis). Similarly return on investment for the current period should be compared with returns generated in past (time series analysis). A bank creates value only if it is able to generate return higher than its cost of capital. Cost of capital is the weighted average cost of equity and debt (WACC).

The performance of a bank gets reflected on its valuation by the capital market. Market valuation reflects investor's perception about the current performance of the bank and also their expectation on its future performance. They build their expectations on the estimated growth of the bank in terms of return on capital. This results in incongruence between current performance and the value of the bank. Even if the current performance is better in relative terms, poor growth prospects adversely affects the value of the bank. Therefore any metric of performance, to be effective, should be able to not only capture the current performance but also should be able to incorporate the direction and magnitude of future growth. Therefore the robustness of a measure is borne out by the degree of correlation the particular metric has with respect to the market valuation.

Metrics of performance have a very important and critical role not only in evaluating the current performance of a bank but also in achieving high performance and growth in the future. The metrics of performance have a variety of users, which include all the stakeholders whose wellbeing depends on the continued wellbeing of the bank. Principal stakeholders are the equity holders, debt holders, management, and suppliers of material and services, employees and the end-users of the products and services. Value creation and maximization depends on the alignment of the various conflicting interests of these stakeholders towards a common goal. This

means maximization of the bank value without jeopardizing the interests of any of the stakeholders. Any metric, which measures the bank value without being biased towards any of the stakeholders or particular class of participants, can be hailed as the true metric of performance.

However it is difficult to develop such a metric. Most of the conventional performance measures directly relate to the current net income of a business entity with equity, total assets, net sales or similar surrogates of inputs or outputs. Examples of such measures are return on equity (ROE), return on assets (ROA) and operating profit margin. Each of these indices measure a different aspect of performance, ROE measures the performance from the perspective of the equity holders, ROA measures the asset productivity and operating profit margin reflects the margin realized by the bank at the market place. The net income figure in itself is dependent on the operational efficiency, financial leverage and the ability of the entity to formulate right strategy to earn adequate margin in the market place.

It is important to note that none of these measures truly reflect the complete picture by themselves but have to be seen in conjunction with other metrics. These measures are also plagued by the bank level inconsistencies in the accounting figures as well as the inconsistencies in the valuation methods used by accountants in measuring assets, liabilities and income of the bank. Accounting valuation methods are in variance with the methods that are being used to value individual projects and banks. The value of an asset or a bank, which is a collection of assets, is computed by discounting future stream of cash flows. The net present value (NPV) is the surplus that the investment is expected to generate over the cost of capital. Measures of periodical performance of a bank, which is the collection of assets in place, should follow the

same underlying principles. Economic value added (EVA) is a measure that captures the valuation principles.

2.3; Analysis on the Economic Value Added (EVA)

EVA is the invention of Stern Stewart & Co., a global consulting firm, which launched EVA in 1989. EVA is Economic Value Added is a measure of economic profit. It is calculated as the difference between the Net Operating Profit after Tax and the opportunity cost of invested Capital. This opportunity cost is determined by the weighted average cost of Debt and Equity Capital (“WACC”) and the amount of Capital employed (Worthington and West 2001).

What separates EVA from other performance metrics such as EPS, EBITDA, and ROIC is that it measures all of the costs of running a business—operating and financing. This makes EVA the soundest performance metric, and the one most closely aligned with the creation of shareholder value. In fact, EVA and Net Present Value arithmetically tie, so companies can be assured that increasing EVA is always a good thing for its investors—certainly not the case with EPS or Free Cash Flow (Makelainen and Roztockki 1998).

Many researchers even argue that EVA is a better decision tool than NPV because it captures the period-by-period value creation or When, EVA is greater than zero, value is created during the period for the bank and if EVA is less than zero, value is destroyed during the period. In order to create values, ROIC for a bank must be greater than weighted average cost of capital destruction of a given firm or investment, and makes it easy to audit performance against management projections. Given the usefulness of the measure, many companies have adopted it as part of a comprehensive management and incentive system that drives their decision processes.

They strive to increase their EVA by:

- Increasing the NOPAT generated by existing Capital
- Reducing the WACC
- Investing in new projects where the Return exceeds the WACC
- Divesting Capital where the Return is below the WACC

Such focus on value creation has served the shareholders of these companies well. A bank's invested capital multiplied by WACC gives the minimum level of operating profits the bank should generate to satisfy shareholders. EVA measures how much net operating profit (adjusted for tax and also called NOPAT) exceeds the capital charge. Mathematically, EVA can be estimated focusing both on Management of Capital as well as the Management of Profits.

A bank's present value should equal its invested capital plus the present value of future EVA and if the bank's present value is lower, the stock is undervalued and vice versa. Value of a bank's share is also said to equal the market value of assets and the sum of EVAs of all future periods discounted back to the present. A bank once it reaches a period when it no longer earns a return on its incremental investments greater than its cost of capital, from this period onward no EVA is added or destroyed from new investments. While competitive forces are likely to drive returns to WACC for Indian banks, the emergence of indifference vary from bank to bank and is determined by several factors such as industry structure, a bank's position in the industry, capital spending for strategic investments etc. A bank's invested capital multiplied by WACC gives the minimum level of operating profits the bank should generate to satisfy shareholders. EVA measures how much net operating profit (adjusted for tax and also called NOPAT) exceeds the capital charge.

Mathematically, EVA can be estimated focusing both on Management of Capital as well as the Management of Profits.

- EVA - As a measure of Value creation through Management of Profits
- EVA - As a measure of value creation through Management of Capital

The use of this formula will produce either a positive or negative EVA number. A positive EVA reflects that the company is increasing its value to its shareholders, whereas a negative EVA reflects that it is diminishing its value to its shareholders. EVA is based on the principle that since a company's management employs equity capital to earn a profit; it must pay for the use of this equity capital. Including a cost for the use of equity capital sets EVA apart from more popular measures of bank performance, such as return on assets (ROA), return on equity (ROE) and the efficiency ratio, which do not consider the cost of equity capital employed. As a result, these measures may suggest a bank is performing well, when in fact it may be diminishing its value to its shareholders.

2.4; Benefits of EVA System for Banks

As banks become 'capital hungry' to meet their growth expectations and simultaneously meeting the regulatory requirements in the Basel-II era, they would have to remain responsive to the expectations of the market on a risk adjusted basis to ensure continued supply of financial capital from the shareholders and human capital from the ultimate stakeholders. One of the fundamental limitations in the existing business growth strategies of Indian banks, especially public sector banks, is its virtual, if not complete, disconnect with riskiness. 'Profit rich but Risk poor' strategies are doomed for failure in the long-run! Finalization of business targets should no longer remain a mundane 'volume-mix' targeting exercise but should built-in inherent risk-return

dimensions. Business strategies that ensure ‘Risk & Return by Choice and not by Chance’ are keys to ensure continuing success of banks in the emerging market. In order to align the performance of individual zones/regions/branches to the overall corporate expectations in terms of EVA, the vocabulary of risk management has to percolate down the hierarchy of banks to the individual unit level. New performance benchmarks in the form of EVA should naturally form the unifying cord/link in every bank.

EVA can be an important tool that bankers can use to measure and improve the financial performance of their bank. Since EVA takes the interest of the bank’s shareholders into consideration, the use of EVA by bank management may lead to different decisions than if management relied solely on other measures. As mentioned earlier an important difference between banks and others is the role of debt. For other firms debt is a part of the financing operations and interest expenses are excluded from Net Operating Profit after Taxes (NOPAT) so that returns are unlevered. A bank’s debt funding is effectively the raw material which is intermediated into higher yielding assets. Interest expense, on this view, is equivalent of the cost of goods sold. This has an important consequence. In our analysis NOPAT for each year was therefore arrived at after adding interest on RBI loans and other loans to Profit before Depreciation and Taxes less Cash Taxes. The component of cash taxes represented as if banks were debt free. In order to calculate cash taxes, tax shield on the interest paid on RBI loans and others were added back to Tax Provision and tax paid on other incomes were deducted from tax provision of the year. A tax rate of 30% per year was assumed for maintaining consistency over years in our analysis. The economic capital of a bank is defined as the shareholders’ funds plus reserves excluded from equity, such as loan losses or contingency reserve which in economic terms, function as capital. In this fund total long term borrowings of the bank are added to arrive

at the Invested Capital (IC). In our analysis we have first attempted to critically evaluate bank's performance in generating Return on Invested Capital (ROIC) over years, we have taken two most critical indicators viz. Return on Invested Capital (ROIC) and Incremental ROIC.

2;5; USE of EVA on Indian Banks

Net Operating Profit after Tax

The NOPAT curriculum includes Interest Income, Other Income deducting interest on deposit and other operating expenses less tax so as to give an overall emphasis for Operating Profit.

Net Operating Profit is considered instead of Net Profit so as to highlight the economic value of a firm.

NOPAT is the difference between Operating Profit and the amount of Tax paid by the organization.

Operating Profit				
Bank	FY13	FY12	FY11	FY10
SBI	18,229.26	10,501.47	14,578.54	14,604.94
IOB	1,970.69	1,583.25	1,607.46	956.96
BOB	5,669.17	5,434.86	4,415.46	3,875.53
ICICI Bank	5,343.69	2,925.97	2,883.17	5,552.30
AXIS Bank	3,103.76	2,352.88	2,073.14	3,941.77

YES Bank	935.96	1,528.71	1,179.06	736.90
HDFC Bank	5,226.67	4,249.23	3,887.62	4,863.44
TAX				
Bank	FY13	FY12	FY11	FY10
SBI	6,797.30	6,689.71	6,166.62	6,115.12
IOB	180.25	247.58	519.68	271.99
BOB	350.51	1,018.84	1,408.64	1,179.73
ICICI Bank	3,071.22	2,338.17	1,609.33	1,600.78
AXIS Bank	2,373.64	2,045.99	1,747.63	1,492.37
YES Bank	625.05	473.02	365.04	248.75
HDFC Bank	3,024.94	2,346.62	1,892.86	1,340.99
NOPAT				
Bank	FY13	FY12	FY11	FY10
SBI	11,431.96	3,811.76	8,411.92	8,489.82
IOB	1,790.44	1,335.67	1,087.78	684.97
BOB	5,318.66	4,416.02	3,006.82	2,695.80
ICICI Bank	2,272.47	587.80	1,273.84	3,951.52

AXIS Bank	730.12	306.89	325.51	2,449.40
YES Bank	310.91	1,055.69	814.02	488.15
HDFC Bank	2,201.73	1,902.61	1,994.76	3,522.45

Table 1; Analysis on the performance of seven Indian banks

As per the above tables, the following interpretation can be made. Comparing all the seven esteemed Banks for analysis, we can prelude that State Bank of India leads the race by holding the highest Net Operating Profit after Tax of 11,431crores in the financial year 2013 for both Public Sector and Private Sector Banks. ICICI stood third with 2,272crores in 2013 in the overall competition but first when Private Sector Banks were concerned. HDFC stood fourth in the race with an overall net operating profit after tax of 2,201 crores in 2013 keeping YES Bank at the last stage with an overall net operating profit after tax of 310crores in FY2013. For the financial years 2012 and 2011 same was the result with BOB in Public sector bank and HDFC in private sector concerns.

Incremental NOPAT

The Incremental NOPAT shows the change in the overall NOPAT in the year 2013 to 2011 when compared to previous years i.e. $NOPAT(t) - NOPAT(t-1)$

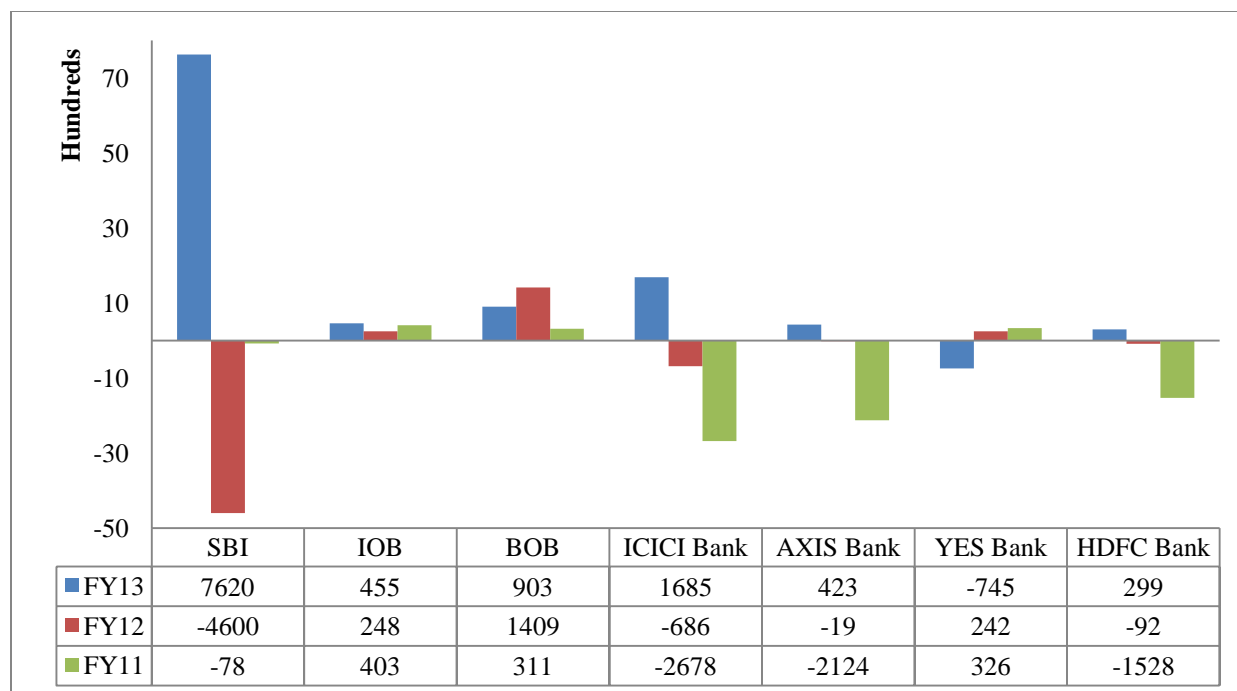


Figure 1; Incremental NOPAT in Indian Banks

We can adjudicate that the NOPAT for SBI gave an increment of 7,620 crores in 2013 with the comparison of its NOPAT of 2012 taking SBI at the prime stage of competition. But the case was reverse in FY 2012 and 2011 when the NOPAT of SBI gave a decrement of -4,600 and -78 crores making it fall to the 7th and 4th slope in the race. But the remaining 2 Public sector banks IOB and BoB have always shown constant growth in their performances. ICICI, AXIS and HDFC have too shown an immense contribution in the incremental value for the firm in the financial year 2013.

Invested Capital

The invested capital includes Total Equity and Reserves and borrowings excluding Total Deposits because these are the prime essentials for undermining the operations of a business unit.

Total equity & Reserves + Total borrowings

Bank	FY13	FY12	FY11	FY10
SBI	312,198	295,601	285,790	275,954
IOB	61,417	55,566	48,610	37,651
BOB	121,394	83,209	71,397	61,182
ICICI Bank	171,394	159,560	134,686	120,893
AXIS Bank	113,738	93,192	71,992	55,975
YES Bank	42,976	27,757	18,829	10,210
HDFC Bank	111,614	97,483	70,929	58,608

Table 2; investment capital in Indian Banks

From the above curriculum, we can proclaim that SBI Bank has made the highest Capital Investment each time in comparison with other banks with an investment of 312,198 crores in 2013, 295,601 crores in 2012 and 285,790 crores in 2011. Whereas ICICI holds the second spot, BOB in 3rd and AXIS holds the fourth spot in 2013. In terms of Private sector ICICI holds the first spot in all the financial years

Incremental Invested Capital

The incremental Invested capital determines the overall change in the invested capital as compared to the previous year.

Invested capital (t) – Invested Capital (t-1)

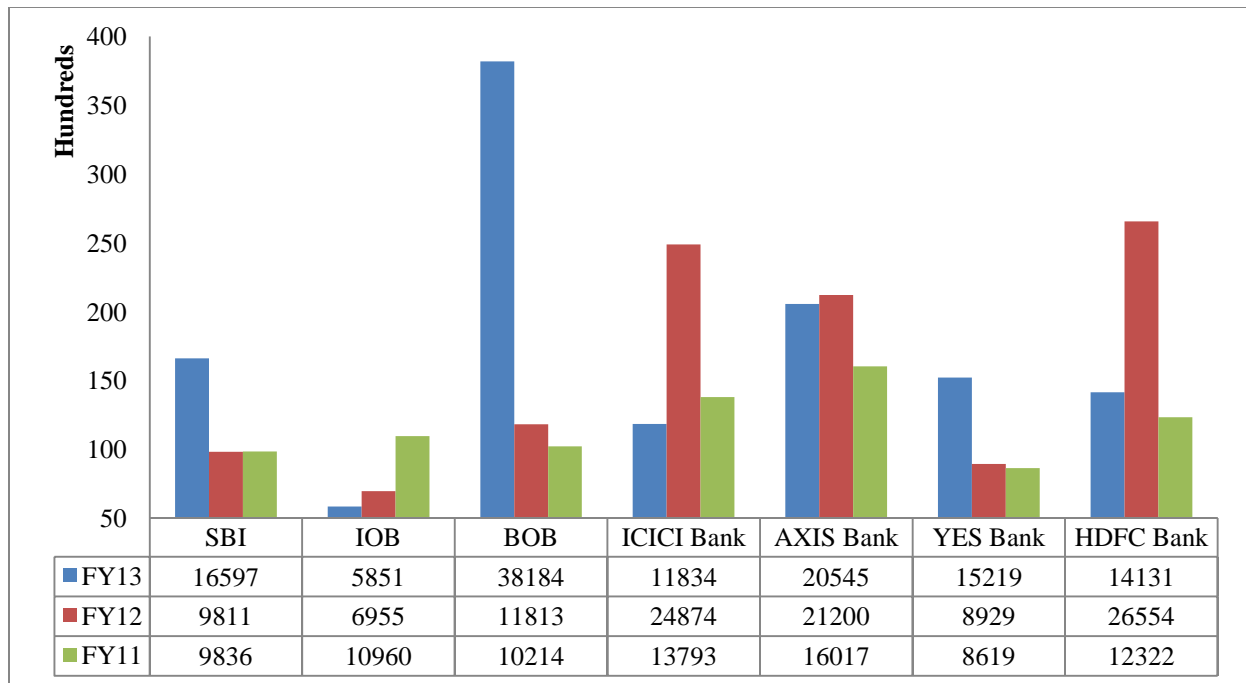


Figure 2; Incremental Invested Capital in Indian Banks

Forecasting the above analysis, we can sort out that both the Public sector and the Private sector bank holds the key position with an incremental capital in all the financial years.

Return on invested capital

The return on invested capital signifies the return that the firm earns on the capital invested for a given period of time.

NOPAT / Invested capital

NOPAT				
Bank	FY13	FY12	FY11	FY10
SBI	11,432	3,812	8,412	8,490

IOB	1,790	1,336	1,088	685
BOB	5,319	4,416	3,007	2,696
ICICI Bank	2,272	588	1,274	3,952
AXIS Bank	730	307	326	2,449
YES Bank	311	1,056	814	488
HDFC Bank	2,202	1,903	1,995	3,522

Capital Invested

Bank	FY13	FY12	FY11	FY10
SBI	312,198	295,601	285,790	275,954
IOB	61,417	55,566	48,610	37,651
BOB	121,394	83,209	71,397	61,182
ICICI Bank	171,394	159,560	134,686	120,893
AXIS Bank	113,738	93,192	71,992	55,975
YES Bank	42,976	27,757	18,829	10,210
HDFC Bank	111,614	97,483	70,929	58,608

ROIC

Bank	FY13	FY12	FY11	FY10
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SBI	0.037	0.013	0.029	0.031
IOB	0.029	0.024	0.022	0.018
BOB	0.044	0.053	0.042	0.044
ICICI Bank	0.013	0.004	0.009	0.033
AXIS Bank	0.006	0.003	0.005	0.044
YES Bank	0.007	0.038	0.043	0.048
HDFC Bank	0.020	0.020	0.028	0.060

Table 3; NOPAT / Invested capital In Indian banks

BOB bagged the highest return each time with in FY 2013 and FY 2012 with a return of 4.4% in 2013 and 5.3% in 2012. But in 2011 and 2010 YES Bank and HDFC Bank had a highest return on capital i.e. 4.3% and 6% respectively. In most cases compared to Private sector bank Public sector bank return is higher.

Risk Analysis of banks

Beta (β)

Beta can be defined as a risk measuring factor for different capital allotments, higher the Beta, higher the risk. Beta here has been calculated based on stock prices vis-à-vis NIFTY for each year separately.

Beta has been calculated with the formula $\beta = \frac{n\sum xy - (\sum x)(\sum y)}{n\sum x^2 - (\sum x)^2}$. Refer Annexure 2 for detailed calculations.

Bank	FY13	FY12	FY11	FY10
SBI	1.66	1.60	0.78	1.52
IOB	1.58	1.84	0.81	1.87
BOB	2.31	1.06	0.48	0.74
ICICI Bank	1.86	1.94	1.16	1.77
AXIS Bank	1.60	2.22	1.11	1.11
YES Bank	1.25	2.08	1.36	1.51
HDFC Bank	0.96	0.90	1.26	0.95

Table 4;Beta analysis on Indian Banks

For 2013, the Beta for BOB bank was highest stating its risk parameters of 2.31, ICICI at the second stage with a beta of 1.86, SBI at the third spot with a beta of 1.66 and followed by AXIS, IOB, TES Bank and HDFC. In General the Private sector bank has high risk compared to public sector bank in FY12 to FY10. Only in FY13 it was a marginal risk gap.

Cost of Equity (Ke)

It determines the expected rate of return for the investors. We have calculated the cost of equity for the following banks using CAPM model and taking inputs such as Rf (365 days T-bills rate – same for each year i.e. 4.55%), Rm (3 years market monthly return of NIFTY) and β .

So the Cost of Equity (Ke) has been calculated with the formula $Ke = Rf + \beta (Rm - Rf)$.

Bank	FY13	FY12	FY11	FY10
SBI	0.112	0.120	0.109	0.162
IOB	0.111	0.126	0.110	0.185
BOB	0.122	0.107	0.098	0.111
ICICI Bank	0.115	0.128	0.123	0.178
AXIS Bank	0.111	0.135	0.121	0.135
YES Bank	0.106	0.132	0.130	0.161
HDFC Bank	0.101	0.103	0.126	0.125

Table 5; cost of equity in Indian Banks

In 2013, BOB offered the highest cost of equity to its equity holders taking the utmost risk in the firm and likewise gained a return of 12.2% leading ICICI offering 11.5% followed by others. In Previous years all the private sector banks had a high return compared to the public sector banks.

Cost of Debt (Kd)

It can be defined as the total interest paid divided by the total borrowings by a firm. Hence the Interest expense details and the Debt details of all the banks have been collected to arrive upon the cost of debt (Kd).

Interest Expense				
Bank	FY13	FY12	FY11	FY10
SBI	63,230	48,868	47,322	42,915
IOB	15,425	12,881	7,893	7,078
BOB	23,881	19,357	13,084	10,759
ICICI Bank	26,209	22,809	16,957	17,593
AXIS Bank	17,516	13,977	8,592	6,634
YES Bank	6,075	4,692	2,795	1,582
HDFC Bank	19,254	14,990	9,385	7,786
Debt				
Bank	FY13	FY12	FY11	FY10
SBI	1,170,653	1,053,502	907,128	795,787
IOB	225,458	202,048	164,584	119,777
BOB	500,463	408,444	327,747	254,394

ICICI Bank	437,955	395,665	335,156	296,280
AXIS Bank	296,565	254,176	215,506	158,470
YES Bank	87,878	63,308	52,630	31,548
HDFC Bank	329,254	270,553	222,980	180,320
Cost of Debt				
Bank	FY13	FY12	FY11	FY10
SBI	0.054	0.046	0.052	0.054
IOB	0.068	0.064	0.048	0.059
BOB	0.048	0.047	0.040	0.042
ICICI Bank	0.060	0.058	0.051	0.059
AXIS Bank	0.059	0.055	0.040	0.042
YES Bank	0.069	0.074	0.053	0.050
HDFC Bank	0.058	0.055	0.042	0.043

Table 6; Cost of debt for Indian Banks

In 2013, YES Bank offered the highest cost of debt of 6.9% leading IOB having 6.8% under its belt, ICICI offering 6% and SBI offering 5.8%. This was the case in all the previous financial years wherein YES Bank has offered the highest rate of debt. YES Bank had made a huge

outflow of cost of debt offering because the total borrowings were very low compared to other players and on the other hand, it paid nominal interest as others did.

Cost of Capital (WACC)

The weighted average cost of capital (WACC) is the minimum rate of return on capital required to compensate debt and equity investors for bearing risk

Weighted cost of Equity + Weighted cost of Debt

Bank	FY13	FY12	FY11	FY10
SBI	0.054	0.046	0.052	0.054
IOB	0.069	0.064	0.048	0.060
BOB	0.048	0.047	0.040	0.042
ICICI Bank	0.060	0.058	0.051	0.060
AXIS Bank	0.059	0.055	0.040	0.042
YES Bank	0.069	0.074	0.054	0.051
HDFC Bank	0.059	0.055	0.042	0.043

Table 7 ; Cost of Capital (WACC) in Indian Banks

In 2013, the WACC for IOB & Yes Bank was highest of 6.9% each because the proportion of equity for the firm was very high for the bank as against its proportion of borrowings. In 2012 also Yes Bank had a highest WACC of 7.4% and was leading in all the years followed by other banks.

Economic Value Added and Indian banks

EVA - as a measure of Value creation through Management of Profits

This concern is used by the following sequence: ROIC which includes NOPAT divided by capital employed minus WACC which pertains the addition of weighted cost of equity and weighted cost of debt.

When the question arises so as to create the economic value, only BOB has created positive value in past 4 years followed by Axis Bank and HDFC Bank in financial year 2010. Rest all the banks, instead of excellent capital investment, capital charge and cost of equity, it failed to give better EVA.

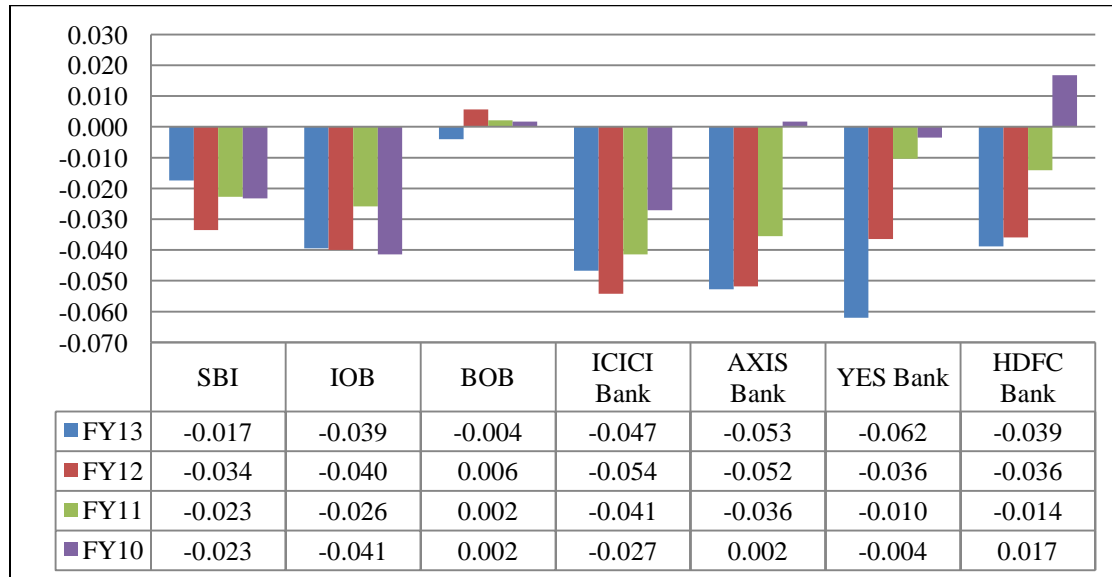


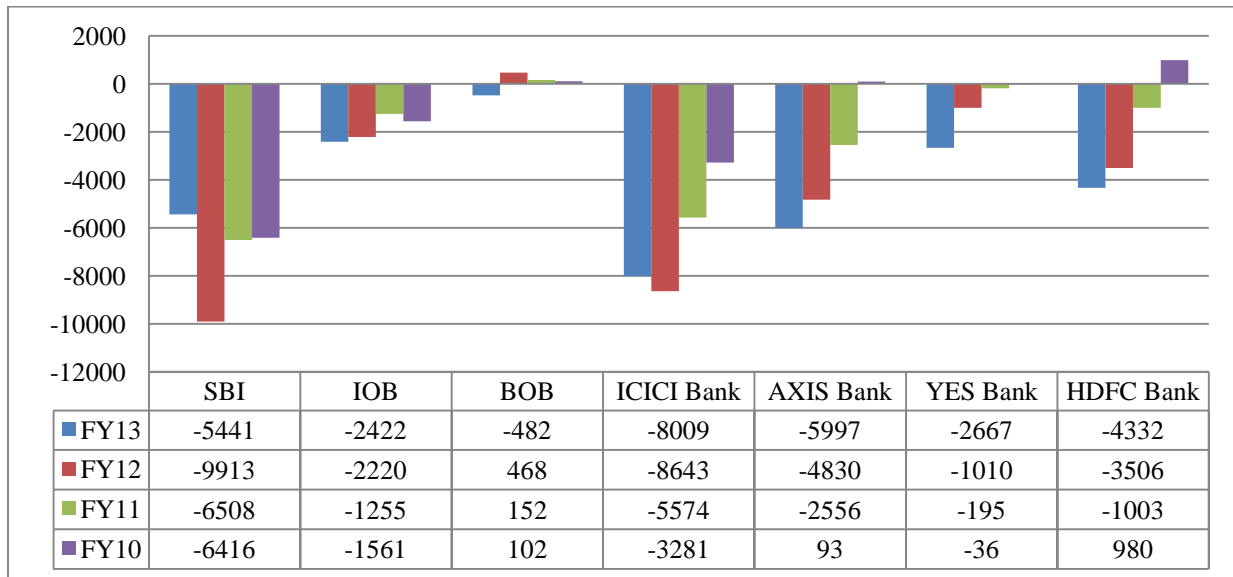
Figure 3; Economic Value Added and Indian banks

EVA - As a measure of value creation through Management of Capital

This scenario is used by the following consequence: - NOPAT including net operating profit less tax subtracting capital charge comprising of cost of capital multiplied by capital employed gives the title at a substantial exposure.

I.e. NOPAT - (WACC x Invested Capital)

Figure 4; Economic Value Added and Indian banks



Similarly here also only BOB has created positive value in past 4 years followed by Axis Bank and HDFC Bank in financial year 2010. Rest all the banks has a negative EVA for all the years.

2.5; Creating Value for Stakeholders in Banks

Specifically, it is argued that the purpose of marketing is to contribute to maximizing shareholder value and that marketing strategies must be evaluated in terms of how much value they create for investors. This concept, which is called value-based marketing, does not overthrow the existing

body of marketing knowledge. On the contrary, it makes it more relevant and practical by giving it greater clarity and focus (Doyle, 2008). Market efficiency and cost efficiency, both are the dimensions of efficient value creation process, are very important ((Wikström and Normann, 1994). In order to be successful on performance dimension, needs of customers should be appropriately satisfied. Profitability and cost effectiveness improve financial position of the organization are nitty-gritties of a strong corporate position of the organization (McKenna, 1991). Companies cannot merge differentiation and cost leadership strategy, if they do this would call “stuck in the middle” and companies following this strategy will destined with recess and stagnation (Porter, 1985). Traditionally, the main purpose of the marketing is to make product a success in the market place, but corporate management views marketing as a key contributor to increase the shareholder’s returns (Day and Fahey, 1988). This shift of approach has been resulted into realization that relationship between finance and market should be managed carefully. Depending upon the assumptions that positive product market results will be transformed automatically into best financial results (Hunt and Morgan, 1995).

So, customers and channels are viewed by marketing department as the assets of the company that should properly managed and leveraged. There is another change in the mind set of marketers, is expanding set of measures the failure or success of marketing efforts. They are moving beyond traditional financial measures, such as gross margin, sales volume and market share; they are using net present value and shareholder’s value to measure the success of failure or activities performed by the marketing department (Narver, 1990). It is interesting to know that marketers are trying to add more financial measures to gauge marketing activities, while on the other hand financial officers are also expanding their thinking to include non-financial measures of company in order to develop a more balanced scorecard (Webster, 1992).

During the past two decades the concept of shareholder value has become an integral part of corporate strategies of organizations. In 1980s, a small numbers of behemoth companies dominated the American economy. These companies apportioned their revenues in accordance with principle of “retain and invest”. These multinational behemoths inclined to preserve both money and people, employed in these companies (Hall, 1994).

One of the important things in every organization is to increase the value of shareholder through the creation of verity of corporate valuation and to introduction of different marketing and financial management skills (Koller, Goedhart and Weseels 2010). The value of the shareholder is the ultimately the goal of organization and to increase the growth of the company as well. It is important to understand the shareholder value and to focus more on core concepts of shareholder value through the development of capital flow, control mechanism, enhancement of capital market, expansion of goals and target, liquidity, risk management, information technology advancement, globalization and improvement in internal control. With the understanding of shareholder value and to build up of management team will create the profitability (Young and O'Byrne 2001). The economic value added (EVA) is based on the financial measurement performance tool that investigate the shareholder value. It is calculated through the excess investment return on investment made by shareholder. It is a NOP (net operating profit) less opportunity cost. It is the rate of return that minimum amount of value required by shareholder to compete the risk (M. Stewart 1990). It is one of the benchmark values that are calculated to understand the residual income and interest of the shareholder in the company (Pinto 2001). EVA is the most demanded tool for the owners in every situation. It has been implemented in numerous large companies to motivate managers to create shareholder value (Dodd and Chen, 1996). The decision role is very simple; if the EVA is positive, the company creates shareholder

wealth. Negative EVA indicates that shareholder wealth is destroyed (Stewart, 1991). The mortgage crisis in 2007, which saw some of the most recognized names in the banking sector fall from grace into the ignominy of bankruptcy, has only heightened the need for capital quality and for standards of liquidity to be increased by substantial proportions. It was impossible for the pre-existing banking system to sustain the consequential losses as well as the transference of off balance sheet items of some banks at that time (Bank for International Settlements, 2011). Shares of Indian banking industry has been showing quite interesting results from previous five years. Market share of asset has been mobilized from 2001 to 2007 between new private banks, PSU banks, private banks, foreign banks and other financial institutions. On the other hand, public sector shares keep on dominating, so there is considerable shift in market share to new private sector banks.

2.6; Different Types of stakeholder Value for Business

Shareholder Value

For a publicly traded company, shareholder value is the part of its capitalization that is equity as opposed to long-term debt. In the case of only one type of stock, this would roughly be the number of outstanding shares times current share price. Things like dividends augment shareholder value while issuing of shares (stock options) lower it. This shareholder value added should be compared to average / required increase in value, also known as cost of capital. For a privately held company, the value of the firm after debt must be estimated using one of several valuation methods, such as discounted cash flow or others. The meaning of the shareholder values in the terms of business, which indicate that, the performance measurement of success of the company and to ultimately the benefits of shareholder. Investigating and understanding of the value of shareholder have different perspective which relates with total benefits to the owners of

the company (Tettey 2008). The calculation of shareholder value has several accounting methods such as ROE (return on equity), cost of equity and other market equity calculated value adjustments. The equity value is the residual interest of shareholder in the company after adjustment between the assets and liabilities. The management must take steps towards increasing of value for shareholder through achieve the minimum level of cost structure, advantage of positive externalities, access to get more cheap new debt and equity from the market and design the capital structure with more efficient and effectively than competitors and avoid the unnecessary action of destruction (S. Stewart 1991). The value of the shareholder is trying to discuss and monitor the efficiency of management. The efficiency of higher valuation, target the objective in time and synergies to redistribution of shareholder are the main focus of the company's top management (Pakalen 2009).

Customer Value

Customer value is defined as the difference between benefits and satisfaction gained customer and the cost, which has paid to gain these benefits (Zeithaml, 1988). Through addition of more value to the basic product (increased product quality, better supporting services) firm tries to enhance customer's satisfaction level in order to strengthen the bond and to achieve loyalty. All other values revolve around the customer value. Because, when customers are offered with appropriate solutions for their problems, they will not purchase the product/service of the company in future. In this way sales and revenues of the company will be affected and company with poor sales and revenues cannot deliver value to other stakeholders.

After going through myriad types of researches on consumer behaviour, we come to the findings that value is regularly used in the sense of value of customers ((Engel and Blackwell, 1982). But

according to Peter and Olson (1993), the utilities or value that customers obtain when they buy a product/service. The notion of value appears very frequently in service marketing. But there is scarcity of a clear and unequivocal definition of value. According to Monroe (1991), customer's perceived value is the ratio between perceived benefits of the customer and perceived sacrifices by the customer. The perceived sacrifice includes purchase price, transportation, acquisition costs, installation expense, maintenance and repair, order handling and risk of failure or bad performance.

Customer value is the value received by the end-customer of a product or service. End-customer can include a single individual (consumer) or an organization with various individuals playing different roles in the buying/consumption processes. Customer value is conceived variously as utility, quality, benefits, and customer satisfaction. The customer relationship management (CRM) has the core value for any business especially for banking and insurance companies. The banking sector involves with the service to the customers and helps them to obtain valuable existing products and services that they provide. The long run relationship between the banks and customer should be the main focus of the management. The marketing department are closely related with customer management to provide them more satisfaction and reliable services that they want. The top management must ensure to create CRM standards and must focus on multi-criteria of preference (Onut and Erdem 2002). The importance for bank management has to concentrate on the long term relationship with customers on the basis of multiple core business strategy. They should taking steps towards provide them short and long term loans on lower cost of interest rates, provides them counselling about different new types of products for farmers, builders and other related parties and advise them how to save their money for future needs through several packages of saving schemes (EuropeanCentralBank 2001).

Discussion related to value-addition tactics zero in on how to couple more value with basic solution or core product. The manifestation “add value” indicates that an extra feature or better after sale service should be added.

Employee Value

This is often an undervalued asset in companies and also the area where there is the most discord in reporting. Employees are the most valuable asset companies possess and the one we expect the most from, but often the one that receives the short end of the stick when it comes to values applied to them. Human capital is considered as the most valuable asset of a company. Skilled, educated and professional workforce is a prerequisite for good performance in order to survive and sustain in today’s competitive environment. Dissatisfied employees cannot deliver value and best services to other stakeholders of the company. So, in order to deliver value to customers and shareholders, value should also be provided to employees in order to get satisfied workforce that can achieve envisaged objectives and results (Hall and Liebman, 1997).

The concentration on shareholder is very important as well as the understanding of employee value to remain maintain the momentum of developing structure sustainable. The development of human resource is the fundamental role of the organization to provides them resource and motivates them according to the objectives. The development of the human resource is one of the powerful tools towards the attainment of goals and tasks in time. The management should critically analyse the employee value and design the relationship management with corporate ideas, belief and values. The proper training and enhancement of employee skills as per market demand increase the motivation level of them and capabilities towards the generation of new opportunities (Quay 2009). Most of the organization globally focuses on the opportunities to

develop in the system with more innovative approaches. The value of employee is the most essential tool that builds such kind of effective performance with efficient management. The value of the employee is the framework to address the issues of human resource and highlight the high level of performing workforce retention. The attracting of new talented employee strategy can help the organization to enhance the level of satisfaction and team building during the execution of strategy. The leadership must critically understand the impact of employee in the company through yearly evaluation system and HR department must need to understand the problems of the human resource and motivate them with the overcome of such kind of matter resolving system (Gacheru 2012).

Supplier Value

Current era is an era of collaboration and coordination. Neither individual nor an organization can survive without exchanging goods and services with one another. Everyone plays two roles simultaneously, one as buyer other as seller. Resultantly, cordial mutual relationship, based on value for both buyer and supplier, should be established in order to deliver value to customers, shareholder, society and employees. Supplier relationship management is of strategically planning for, and managing, all interactions with third party organizations that supply goods and/or services to an organization in order to maximize the value of those interactions. In practice, SRM entails creating closer, more collaborative relationships with key suppliers in order to uncover and realize new value and reduce risk. The important purpose of the supplier value is to address the relationship of working process with the creation of value for both parties involves. The supplier provides the resource that will use in the production of the company. The suppliers are mostly concerns with the company risk and revenue analysis. They mostly focus on financial reports to understand the company ability to return their cash against the resource they

provide. The break-even operating analysis represents the volume where cost and revenue are zero. They also focus on company several financial statement analyses to guard their investment (Walter, Ritter and Gemunden 2001). The value of supplier is vital to survive in the market because they provide the resource to the company and the relationship has mostly build on trust, extent to reputation and trustworthiness, goodwill and long terms positive relationship (Dyer and Chu 1997). Supplier relationship management is an essential as the customers. It is not the new segment of the business society. The important thing is to understand the value of supplier and how it becomes essential to focused on such relationship. It is another partnership between buyer and supplier where companies locate the key supplier to provide them quality of resources. The key supplier have been involved with the maximizing of value of the shareholder through providing them time, investment, resources, sharing of risk and collaboration in several other working operation (Brimacombe, Cotter and Timmermans 2011).

Societal Value

One of the main obligations of an organization is corporate social responsibility (CSR). It involves what is delivered to the society in return of sumptuous revenues generated from the same society (Waddock, 2000). Large multinational companies are operating across the globe and contributing value towards the society in different forms.

The social environment also wants that the firm follows or adopts several values towards the society. These social values relate to the provision of hospitals, charity, schools, parks, wildlife protection. The private and public sector of any organization are mostly involves and plays vital role to create healthy and social sustainable working environment. The share a common values to setup the co-responsible mechanism and future values. The financial institutions are committed

to remain in the system through sustainability, accountability, rules and regulations, standards of working environment and to reduce the risk level to provide more satisfaction to the final beneficial (Clerck 2003). The financial institutions have verity of contents of human rights and take the responsibility to ensure the proper integration within the rights of the society. The several analysis indicate that the development and sharing of knowledge with relevance information took forward the shareholder value enhancement and manage the risk level easily. The leadership must identify the social risk and problems to particularly resolve the human resource matters and endorse the social issues in their respective field of business operation (Roca and Manta 2010).

2.7; Principle of Value Creation

Principles address three equally important factors in sustainable long-term value creation: metrics, communications, and compensation.

Define metrics of long-term value creation

Companies and stakeholders are oriented for the long-term use forward-looking incentives and measures of performance that are linked to a strong and credible business strategy. Long-term oriented firms are 'built to last,' and expect to create value over five years and beyond, although individual metrics may be for short time horizons. The aim of such metrics is to maximize future value (even at the expense of lower near-term earnings) and to provide the investment community and other key investors the information they requisite to make better decisions about long-term value.

In pursuit of long-term value creation, companies and investors should:

Understand the firm-specific issues that drive long term value creation. Recognize that firms have multiple constituencies and many types of investors, and seek to balance these interests for long-term success. Use industry best practices to develop forward-looking strategic metrics of corporate health, with a focus on: Enhancing and sustaining the value of corporate assets,

Recruiting, motivating, and retaining high-performing employees, Developing innovative products, managing relationships with customers, regulators, employees, suppliers, and other constituents, and Maintaining the highest standards of ethics and legal compliance.

De-emphasize short-term financial metrics such as quarterly EPS and emphasize specific forward-looking metrics that the board of directors determines are appropriate to the long-term, strategic goals of the firm and that are consistent with the core principles of long-term sustainable growth, and long-term value creation for investors.

Focus corporate-investor communication around long-term metrics

Long-term oriented companies and investors are vigilant about aligning communications with long-term performance metrics. They find appropriate ways to support an amplified voice for long-term investors and make explicit efforts to communicate with long-term investors.

In pursuit of long-term value creation, companies and investors should:

Communicate on a frequent and regular basis about business strategy, the outlook for sustainable growth and performance against metrics of long-term success. Avoid both the provision of, and response to, estimates of quarterly earnings and other overly short term financial targets. Neither support nor collaborate with consensus earnings programs that encourage an overly short-term outlook. Align company and investor compensation policies with long-term metrics

Compensation at long-term oriented firms is based on long-term performance, is principled, and is understandable. Operating companies align senior executives' compensation and incentives with business strategy and long-term metrics. Institutional investors assure that performance measures and compensation policies for their executives and investment managers emphasize long-term value creation. In pursuit of long-term value creation, companies and investors should implement compensation policies and plans, including all performance-based elements of compensation such as annual bonuses, long-term incentives, and retirement plans, in accordance with the following principles.

2.8; Value Management Approach

Value Management is a structured team based approach for a business to achieve Optimum Function for Minimum Cost. It is a management approach to create value business uses a unique combination of concepts and methods to create sustainable value for both organizations and their stakeholders through Value Management. Some tools and techniques are specific to Value Management that many organizations and individuals use. Detailed below is a summary of some of the main tools and techniques. The sustainable and establishing the value for shareholder than it is immense to implement and investigate the economic resources, knowledge of operation, performance and to overcome the barriers with the understanding of value management process (Al-Yami 2008). The meaning of value management is to build relationship with client. It is design according to the client objectives in a particular context (Wandahl 2005). It is a broad meaning of value management which relates with maximizing the development process, investigation of tasks through the satisfaction of client perspective. The clients are the final and main key stage towards the completion of objective. It is involved with building of long term relationship and to enhance the resources optimal value of the shareholder (Coetzee 2009).

2.9; Stakeholder Analysis

Stakeholder Analysis is an approach used to facilitate policy reform procedures by accounting for and often incorporating the needs of business and customer satisfaction. A stakeholder is any individual/groups of individual with a declared or credible interest or stake in a policy concern. The stakeholder analysis are based on the persons that have residual interest and whom they facilitate the policy making, methodology to incorporating the capacity to reform the sustainable and realistic business approach. The analysis of stakeholder means to understand and investigate the persons of whom investment and time are linked with outcome of the project. We can also define it as the gain and lose can be expected during the project process. It includes the individuals that have main interest and affect the business operation through decision making, investment, resources, experience and implementation of several strategies. The primary purpose of the stakeholder is to critically achieve the goals and objectives related with project. They are also interest with low cost of funding to gather, high quality of products and services, highly qualified human resource to satisfy the customer needs and wants as the demand (FAO 2006). It is a systematic method to analyse and determine the interest of shareholder through decision making, impact on policy and strategy, action plans and support the standard of resource (Schmeer 1999).

Stakeholder analysis was conducted by IPC team in Honduras, in1992, to examine the environment of increased financial outcomes and value, both for customers and stakeholders of the Central Bank. The objective behind this manoeuvre was to assess the opposition or support for the suggested restructuring in financial structure. The autonomy and independence of the Central Bank was considered significant as it has the capacity to influence and bring a shift to the economic policymaking. There were some other actors, apart from private banks; those have positive tendencies to see BCH more independent bank. Stakeholder analysis cannot be

performed as “one shot” tool to be applied. There are many things, factors and legal issues that should be kept in mind while conducting stakeholder’s analysis. Inputs should be taken and concerns should be addressed to move in single direction coherently and cohesively. After a thorough analysis value of both stakeholder’s and customers could be preserved and delivered. In the situation, where stakeholders are at logger heads then value to customer will remain a dream unfulfilled.

Another lens to evaluate the value creation process is to refer towards total shareholder’s return engendered by myriad types of players in previous five years. Total shareholder’s return for old and new banks witnessed an increment in past five years. TSR is broken into four elements/components. These components are listed below:

- Profitability change (also referred as RoA change)
- Growth
- Change in P/E multiple
- Cash flow variables, which includes new equity induction, share buyback and dividends (free cash flow yield- FCFY)

First two elements, growth and profitability change signifies value manufacturing variables. Change in P/E multiple, the third component, indicates re-rating of the market and the company. FCFY indicates different aspects of the company’s financial policy.

2.10; Value Analysis

Structured team based approach to identifying functional requirements of projects, products, processes or services. It identifying unnecessary costs, obvious and hidden that has affecting on quality, productivity, safety and customer happiness. The value analysis is a process of team

mechanism to understand and resolve the matters and to identify the structure improvements. It involves with sustainable performance of project, services, products and cost benefits. It is a tool to increase and improve the customer relationship through understanding of cost, revenue, profit and the project delivering process (www.dot.ca.gov 2013). The value management is to investigate the performance of the project and function through cost and different characters of the function related with products and services and to provide the reliable and efficient performance as per the customers' needs. It includes the cost reduction, enhancement of function approach and to expand growth (Rabbi 2012).

Analysis offers and external stakeholders, value, for customers, internal stakeholders, are essential in order to deliver value to aforementioned associated peoples. In banking sector, first of it should be clearly defined that what are the meanings taken from value by different stakeholders. It is impossible to deliver value successfully when you are ignorant of expected value of different stakeholders. Value of customers of a bank, employees, government agencies and other relevant authorities and agents are interlinked and correlated to each other (Cornin 2000). For instance, when the customer's perceived value is not prognosticated and realized by the bank, it will be difficult to satisfy the needs of customers. And when needs will be unsatisfied customer will not do business with same bank in future. In this way profitability of bank will be affected and ultimately it will deteriorate the value of bank and its employees. Bank will earn small amount of money and will pay fewer taxes, so value of government will be impacted. We can say that the exchange of value is long and chained process and whole chain is dependent upon the value of end consumer. Hence, the analysis should be thoughtfully conducted to get the real insight of the customer's perceived value in order to fulfil it appropriately. Otherwise, unsatisfied customer will disrupt the whole value creation and value delivery chain.

CHAPTER 3; RESEARCH METHODOLOGY

3.0; INTRODUCTION

This section seeks to analyse the research methodology used in this study. The research methods used in this case, the mixed method; quantitative and qualitative data are used in this study. In addition to that, secondary research method which is the main method of data collection in this study is also analysed. Additionally, ethical observations and limitations of this research are analysed.

3.1; Qualitative and quantitative data collection (Mixed method)

There are three diverse research methods that can be used by researcher in their studies. They include; quantitative, qualitative and mixed methods. Qualitative method makes use of subjective approach and non-numerical data. Quantitative data On the other hand, makes use of the deductive approach and utilizes data collection methods to produce numerical data (Saunders, 2009). The other type of research method is the mixed method which is a combination of the other two methods; qualitative and quantitative. The mixed method is recommended in some cases as it helps in improving the reliability of the research and creates a research outcome which is robust (Bryman and Bell, 2007). Nevertheless for this research the mixed method will be used

in the analysis of data. Both qualitative and quantitative will make use of the secondary research methods; i.e data from other research as findings and in making analysis. The chosen research methods are used in data collection process. Quantitative on one hand is used in analysing the structural features of a research while, qualitative on the other hand is used in analysing the process features of the subjects.

According to Brenda, (2014), Qualitative research presents a number of ways when it comes to the collection of data. It aids in comprehending and answering research questions such as what category of individuals are affected by the arising matter and assists in disclosing the efficiency and the effectiveness of the research methods employed in the research. Generally, qualitative research is used together with other types of research methods such as questionnaires, interviews, transcription and observations. It is mostly useful in areas where the researcher is not sure of which type of data to collect .Nevertheless, its pros is that it helps in the in-depth analysis of data and helps in answering research questions like what when and where.

On the other hand, quantitative research method is used in the quantification of naturally occurring phenomena and in analysing arithmetic data. In addition to that, it is effective in the quantification of smaller samples in comparison to the qualitative method. Its main pros is that, it can be used in the sampling and analysis of different types of data . It is mostly used in the statistical analysis of data. It also helps in avoiding biasness in the study as data is collected from a study sample and does not account for research emotions in its study.

3.2; Data Collection Methods

There are usually two main ways of collecting data in any research, primary and the secondary method. This research will use secondary data collection research only. This is because of the time frame involved in the study. The other factor can be attributed to the fact that, despite publishing their annual reports online, it is hard to get the banks to answer your questions effectively. However, in this case, numerous sources of data will be used to collect and analyses data, this will involve using previously researched on literature review. According to Saunders, (2009), the use of numerous sources of data is important as it helps in increasing the validity and the reliability of the research

3.3; Secondary data collection

Mkansi *et al*, (2012) state that, Secondary data is mainly involved in the collection of data that has already been collected by another party. The main advantage of secondary data is that it aids a researcher in time management as this is the use of data that has already been collected and much time will not be used. In addition to that, it is effective when used with the qualitative data analysis. In addition to that, despite the fact that primary data will not be used in this research, when using it, it is usually impossible to carry out its analysis without the help of secondary data in understanding the changes in phenomena which have occurred over time. This research makes use of a number of secondary research data such as books, journals, magazines, public documents and blogs, both online and offline, published and unpublished, (Hennink, 2010).

3.5; Reliability, Validity and Ethics and Limitation of this research

For any study, it is important to analyze the validity and reliability of the data as it helps in reducing the risks of attaining wrong results. Ethics are equally important on the other hand as

they help in ensuring the study does not violate the rights of a research and that the study is carried out in an effective manner. (Sekaran and Bougie, 2009). There are a number of limitations for this study, one was the fact that the time available for this study was not sufficient enough to help in carrying out analysis. The other factor is that, there are many Indian Banks which can be used in the analysis and it is hard to quantify all of them. In addition to that, it is important to make a comparison of not only Indian Banks as they present numerous challenges.

CHAPTER 4; DISCUSSION AND ANALYSIS

4.0; INTRODUCTION

This section seeks to analyse the findings, of this research in accordance to the research objectives and make analysis on them. In addition to that, discussion on the findings and how they relate to the literature review conducted above will also be analysed.

4.1; Objective 1; Do high returns generated by Indian Banks actually result in value creation for stakeholders.

This objective will be analysed using Pareto Analysis. This is a statistical technique to describe the significant effect on decision making process. It is based on the idea of 80/20 percent of rule which means that 20% of business operation work generated and 80% return you can get from it. This analysis of statistical was first described by the Joseph M. Juran in the late 1940s (Haughey 2014). It is a bar chart of diagram to describe the factor of overall scale of effects.

To find to the main reasons / objective of action / value to be set and it is often called the 20/80 rule and aim to concentrate on the top 20% of items that often have biggest (often 80%) impact. Pareto analysis is also used to determine the most pressing and hampering problems. For

instance, which of following cause most of the problems :(a) computer operator: (b) software: (c) hardware (d) control. Control charts and Pareto analysis are very important and useful in order to monitor trends and level of the performance in a specific time period in a bank.

Pareto analysis on high returns in Indian Banks and value creation

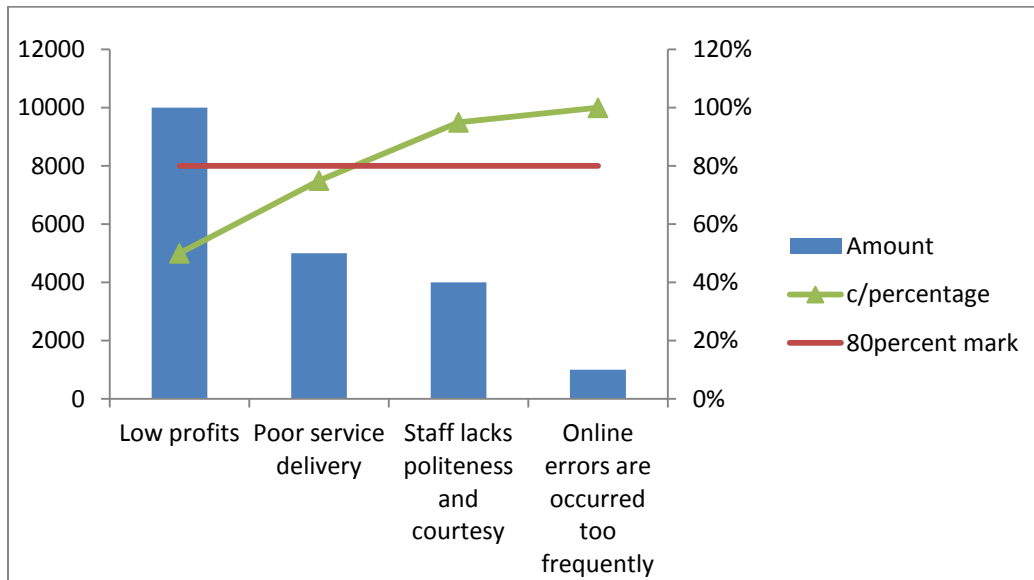
To kick off using the Pareto analysis in the bank first of all management has to write down the alteration they want to bring in the bank. After this, score the group or item. The scoring procedure will be based upon the nature of problem the management is trying to redress. If management is wanted to increase deposit/profits in their bank they will allocate scores to the options on the basis of their capacity to bring deposit into the bank. If management is motivated to increase the level of stakeholder satisfaction in value they might allocate scores on the basis of the ability of complaint reduction by possible change. The option with highest scores will give large benefits and the options with lowest scores with lowest score might cost you more than the worth of solution. In order to investigate the reason behind the incessant decrease in the business of a bank, management decided to take the input from customers. Stakeholders indicated following issues;

- Online errors are occurred too frequently
- Staff lacks politeness and courtesy
- Poor service delivery
- Low profits

Then manager group these problems and tally complaints against each problem in following way;

- Low profits (10000)

- Poor service delivery (5000)
- Discourteous staff (4000)
- Online errors (1000)



After performing above mentioned Pareto analysis, manager can easily understand that 72% of the problems can be resolved by only bringing improvements in the service delivery system which will increase the lower profit. In this way bank can get its customers back by altering its services delivered by making it more convenient and customer friendly. Pareto analysis is a simple approach that assists the management to deliver value to customers after removing crucial problems. Pareto analysis has an association with total quality management as it through aiding and abetting the problem diagnosis and delivering value to customer. The concept of total quality management involves incessant improvement in the quality of product/service, delivering superior value to customer and converting him into loyal customers.

4.2; Objective 2; How does the Economic Value Added model contribute to value creation to stakeholders

This Process Mapping model will be used in analysing how the economic value model contributes to value creation to stakeholders. The process Mapping is a model to describe the activities of team and communication mechanism within a system to help and to improve the opportunities in the given available resources. The process mapping analyses the methodology of resources, input, output and control (ICOR) process mapping. It has been provided the basic framework to systematic control the working environment. It is business processes of graphical technique of flowcharts are also called the flow-charting (Howard 2003).

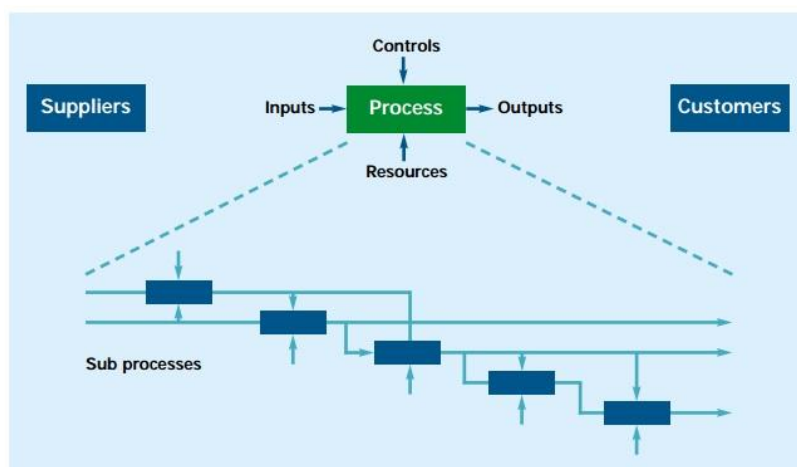


Figure 4; Process mapping flow cart (Retrieved from Source: http://www.businessballs.com/dtiresources/TQM_process_improvement_tools)

The economic value added is a representation of the value generating power of banks. Thus there are three key factors which can be used in computing EVA, Capital employed, Weighted Average Cost of Capital and the adjusted earnings before interest after tax. Thus any change in these three usually affects EVA. The chart below, (figure 4) is how EVA works; it can be used

by the managements of banks to concentrate on the different factors which are affecting value. Thus according to the EVA under the process mapping model, banks can deploy additional funds to activities which the NOPAT produced by the activities in the firm are bigger than the cost of capital employed. In addition to that, the management can also retract funds from activities where the NOPAT amount is smaller than the cost of capital unless the bank has a strategic decision where retraction of one activity can lead to the increase of another. Another way the management can increase value through the EVA model process is by improving the operating efficiency in the bank so as to retain the amount of NOPAT by limiting the current capital or by increasing the current NOPAT with the current capital amount. Lastly, banks can also optimize their capital structure by optimizing their debt equity mix so as to attain the lowest Weighted average cost of capital(WACC)

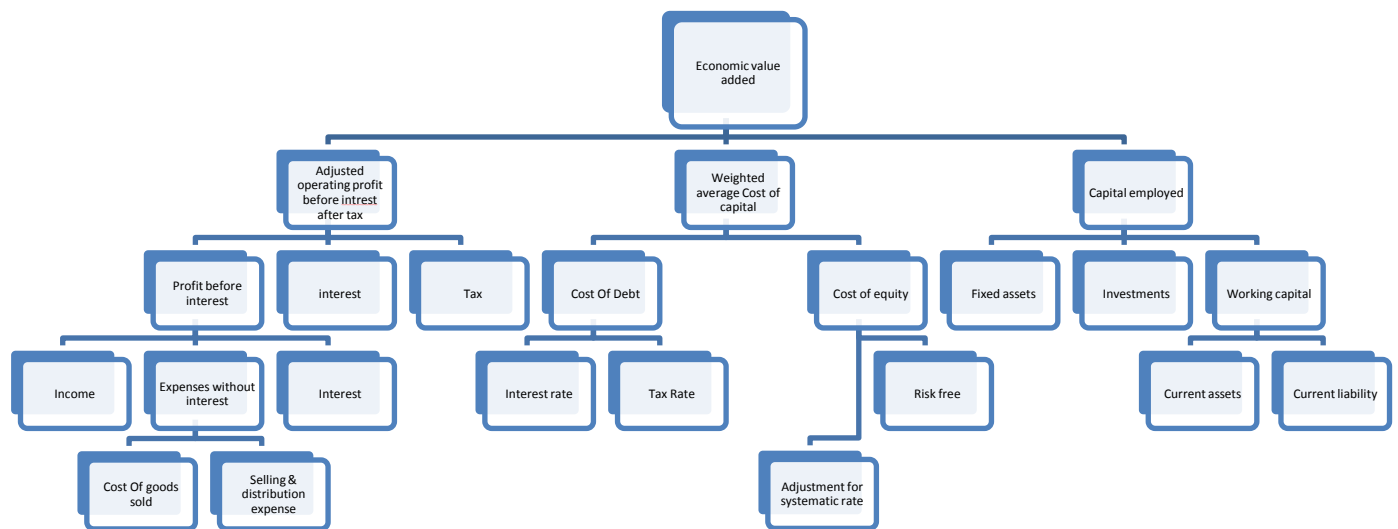


Figure 5; Economic model process

4.3; Objective 3; how can a bank create value for stakeholders

Marketing has been taking a new shape of relationship marketing (Grönroos, 1994). Marketers are shifting their attention from toward retaining their existing customers, rather than investing hefty budget on attracting new customers. The basic theme of relationship marketing is to build long lasting relations with customers, suppliers, intermediary partners and society. The chief idea is to create loyalty in order to make stable and mutually profitable relationships, to garb customer's life time value (Heskett, 1994). Value is an important element of relationship market and defined as providing customers with superior offerings and solutions to its problems to create sustainable competitive advantage over competitors (McKenna, 1991). Product is developed in production department, where features and functions are added to it. Finance department has to provide funds for product development (Moritsin 2001). R&D seeks viability and functionality of the product in the actual marketplace. Marketing department has always been shouldering the responsibility to create value through its product specific activities and plans and then communicate this value to customer. Customers will remain ignorant about the features and qualities of the product, no matter how much premium quality is carried by the product. Indeed, more and real value is added into product by marketing department. After the advertisement, sales and promotional activities of the marketing department customer will know about the value that a specific product carries for them.

The analysis through the market based valuation approach belongs to analysis of market data of the company. The market based approaches are includes EV / EBITDA or EV / EBIT is the one of most essential calculation. However there is difficult to calculate the value of bank through such multiple due to challenges of true debt and equity market value of the bank. In this regards

the two other important methods to calculate the banking sector / bank value through Price/Earning (P/E) and Price/Book value (P/B) (Gross 2006). The Marketing Value Management provides a set of processes and methodologies for the development of a company's capacity to coordinate and optimize the use of marketing resources. In particular, it consists of the integration of various components that can:

- Monitor the internal and external performance of marketing
- Optimize the marketing mix to improve the ROI of marketing programs and campaigns
- Concentrate resources to improve the efficiency of Lead Management and Retention Management.
- Ensure the sharing of knowledge and expertise. As these issues are closely related, it is necessary to apply a top-down approach that takes into account the reciprocal impacts of processes and performance.
- Since the primary objective is to increase efficiency and allocate the proper budget, Marketing Value Management involves the construction of a management control system based on monitoring marketing areas such as ROI for programs and campaigns, providing an internal efficiency dashboard (financial, allocation of resources, ROI for campaigns and programs, etc.). In order to reach this objective, it is essential for marketing to have access to a set of methodologies and models that can continually monitor the company's position and performance in the market. This means the availability of a market performance dashboard, structured competitive/market analysis, data mining models, simulations and scenario analysis. This complex mix of processes and methodologies forms the management cockpit that enables proper resource planning and the ability to react to adverse market developments.

Cost Benefit Analysis

The using of cost benefit analysis used to analyse the costs of implementing something compared to the benefits to be achieved and assists business case submissions. It also helps in evaluating value approach by determining the net value it will be for business. The cost benefit analysis is simple to describe the financial analysis of the company but it is as difficult to describe through financial report. The cost benefit analysis can be describe through return on investment, return on equity, cash flow, revenue, liability, and other related factor of financial assessment such as productivity growth, reduction of cost, more supplier and customer satisfaction (Levitan 2010). The cost benefit analysis analyze the basic concepts of business operation such as opportunity cost of product, new innovation in the market, externalities, valuing the cost of project benefits and the cost of input and output resources (DepartmentF&AAustralia 2006).

Cost-Benefit-Analysis is another source through which value toward different stakeholders of banking industry can be assessed. The difference between cost and the benefit arises from that cost is called value. After the comparison between cost and the benefit, management of the bank will be in better situation to decide about to which extent they can deliver value to its customer and stakeholders of the company. When cost is minimized and feature and benefits are kept at same level, customers will perceive that bank is offering them more value. In this way they will be satisfied and remain loyal to the bank and will do business and transactions through the same bank. Ultimately, this will result into better business and revenues for the bank and the bank will be able to transfer these benefits to its employees and shareholders in the form of increased salary package and dividend (Ruyter 1998). On the other hand if customer finds too small no difference between cost and benefits, he will be disappointed about the value and ultimately switch to alternatives. This phenomenon will diminish the value for bank and its stakeholders.

4.4; Conclusion

Values should be at the fundamental of every business. They are what a business stands for, its philosophy and reason for being. Organizational business's values will help to steer its business, management and employees in the right direction. The significance of values for an organization is even stronger now in the time of economic uncertainty than even before. Business uses its values to inspire their Stakeholders, employees as well as their customers. Value Concepts are often discussed to be an influential marketing tool, since perfect organizational values are positively noted and boost potential buyers to buy or use company's product.

Value is something intangible type of thing; hence it is more strongly associated with service industry. Financial institutions and banks are offer services to their clients/customers, so need for value creation is being felt in banking sector with more intensity as compare to other industries (Cronin 2000). Value creation and delivering process becomes more important of banks to survive and in order remain competitive in the marketplace. It is importance to know the philosophy of values for the businesses. And as it is of importance that business should be sensible in advance of the desires of the future which means the wants and needs of customers and stakeholder. Anxiety about future needs should be as powerful as the passion with which the companies give away before the urgent feelings of the moment. The future wants, wherever it comes into the domain of the present-day or proceeded by a psychical reflection, or the reflection is of a totally different nature from the want itself. The hunger of a future day is required of sustainability of business In every society there are many different values. In international arena values affect marketing strategies much more than expected. Values are learned with imitation or by observing the process of reward.

CHAPTER 5; CONCLUSION, RECOMMENDATION AND FINDINGS

5.0; INTRODUCTION

This section will summarize the key findings for this research. In addition to that, the recommendations for this research will be presented plus the implication for this research on future analysis on value creation for consumers

5.1; Conclusion

EVA (Economic Value Added) is a concept to describe whether the business in a positive direction or negative. It is a value which NOP after the capital cost. The cost assigned to capital which is also known as cost of capital that has been minimum required by the owners (shareholder) to start their business operation (Durant 1999). Economic Value Added (EVA) is the main value measurement function developed by Stern Stewart & Co. And is widely used to indicate and measure the shareholder value. It has been described the benefits that can be calculated through financial reports and several other market based oriented structures. The shareholder value is one of the main focuses of the topic and research analysis is that how EVA has linked with shareholder value. EVA is the economic value in accounting term that has the rate of return on invested capital. It is a value generated through the fund invested by the shareholders in a project / business operation. If the value of EVA is negative which indicate the negative outcome of business operation and management needs to understand all those matter of negative impact on business. It has been described the measurement of benefits of marketing value impact on it to calculate the actual return on capital and the cost assigned to capital. A positive economic value provides the more resource and it is also the indication of long term goals achievement. Value based management has been created the significant values to address

the whole institution / organization.

5.2; Key Findings

After the detailed analysis of financial data and qualitative information of the selected banks, we have derived the following findings,

- After bearing all the expenditures including firms' return to all stakeholders, the remaining wealth i.e. EVA is accumulated by the shareholders after being reinvested so as to create an increment in its wealth resources.
- Only BOB has created EVA consistently and value addition for its shareholders for 3 years.
- All banks are creating shareholders' value in terms of reinvestment of the remaining profit into the business which will surely influence the stock prices in future.
- The reinvestment criteria and its impact will be a great deal for the firm's expected success and value creations for the firm in the mere future.

5.2; Recommendations

The banking sector in India can grow their services and products through understanding of both financial and market based resources and risk factors. The consumer are also the main factors that has been described by the value management and marketing management in order to address all those issues related with such matter. The EVA (Economic Value Added) explain the financial terms with regards to shareholder value to describe the basic or minimum return on capital required by company owners in business operation / invested amount in the business. The minimum amount of capital can be calculated through risk management such as WACC, Beta,

cost of equity (K_{ce}), cost of debt after tax ($K_d(1-t)$). The value management approach also includes the stakeholder analysis, value analysis, FAST analysis, risk cost benefit analysis, Pareto analysis and Process Mapping to address and analyze the value creation management process for shareholders. The other is the market based analysis such as shareholder value, customer value, employee value, supplier value and societal value. All of the above mentioned financial and market based analysis provides the banking sector or any other organization to understand the risk factor and opportunities in the given market. These analysis provides them assessment to control the structure in time and to manage the resources with full of command in order to complete the project operation and to increase the ultimately value of shareholder.

Banking industry in India is undergoing a rapid metamorphosis. Their role of a traditional banker has been replaced with financial services provider for the clients. Most of the PSU and private sector banks in India have already started looking at their portfolio of services offered and what they should do in the future for remaining competitive in the industry. As public sector banks are likely to undergo major consolidation, suddenly for many Indian banks things have changed. The following factors of interpretation serve the purpose of analysing the overall concern of proving the study. The public sector banks lead the private banks when NOPAT is emphasized in terms of the analysis where SBI was in the front spot for each year respectively as it is the leading bank of India. Considerable Capital investment has been made by both public and private sector banks. ROIC gave a marginal importance to public sector bank compared to private sector in all the years. WACC gave equal importance to both the public sector and private sector banks.

5.4; Implications for future research

Undertaking this research is important as not only does it help in understanding how value can be created to stakeholders but also how the Economic Value Added model plays a critical role in the generation of value to stakeholders. Thus in this case, this study has opened doors for future research to be carried on not only understanding how value can be created to stakeholders but also on other models which can be used in measuring financial value through high profits to Stakeholders.

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