



Foreign Banks are More Efficient – a Myth or Fact?

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Abstract

The study was conducted to explore the myth that foreign controlled banks were supposed to be more profitable and efficient than local controlled ones. Two out of three financial indicators, understudy, pointed out that the overall performance of the foreign commercial banks, operating in Pakistan, was 24.44% better than the local controlled banks.

At the end of Year 2007, foreign investors were controlling 58.22% of the outstanding shares in the commercial banks, in Pakistan. Despite the fact that 40% of the foreign controlled commercial banks were running into deficit, the bank and the capital efficiency of the foreign controlled banks running into profit was better than locally controlled commercial banks. CEOs & directors are having substantial control on the financial affairs of the banks and have a direct relationship with the earning per share and bank efficiency but less control on the profit before tax. The executives-shareholders seem to have lesser liaisons with CEOs & directors but have more impact on the earning per share and bank efficiency.

Keywords: Foreign controlled banks, Local controlled banks, Banks efficiency, Capital efficiency

1. Introduction

The commencement of the current decade witnessed a dramatic change in the economic scenario of Pakistan when the Pak economy shows paradigm shift from mixed economy to service oriented economy. One of the most prominent economic events of the decade was the flourishing banking industry, resulting into entrance of many new private & foreign banks into the Pakistani financial market, privatization of many commercial banks, previously nationalized during the seventh decade of 20th century, and many acquisitions and mergers of local and multinational commercial banks. Out of many common prevailing myths the foreign oriented financial institutions, the one is that they perform better as a whole. This is typically assumed to be true about the multinational commercial banks operating in Pakistan. One widely written part of the literature points out that ‘Change’ in the pattern of shareholdings and top management, generally, cause the enhancement in profitability of commercial banks. Megginson & Netter (2001) in their empirical research consistently shows that privatization had a positive impact on firm profitability. On the other hand, Firth *et al.*, (2006); Kato & Long (2006) and Gibson (2003) typically, discovered that the profitability of the firm is negatively related to the change in controlling top slot of the firm as the top managers are usually held responsible for the profitable operation of the firm. La Porta *et al.*, (1999) and Claessens *et al.*, (2000) found that controlling shareholders in business groups can maintain their control with the help of indirect ownership and these controlling shareholders, therefore, have greater incentives and means to expropriate firm resources than their counterparts in private firms. Taboado (2007) is of the view that large domestic block-holders ownership of banks is associated with improved performance while the foreign controlled commercial banks and institutions perform better than their peers despite the fact that this performance is not limited to developing and evolving markets.

1.1 Initial investigation

Before the decision to take research, preliminary investigations conducted, revealed a different story, explained quantitatively, in Table I, displaying the profit after tax and the total capital employed ratio; also called capital efficiency or return on equity.

The resulting ratios disclosed that 10/24 (41.66%) commercial banks, operating in Pakistan, and registered with Karachi Stock Exchange, are foreign controlled ones. Further, 6/24 (25%) commercial banks, registered with Karachi Stock Exchange, were running into loss as on December 31, 2007 out of which 4 were foreign controlled banks. Mean capital efficiency ratios of 24 commercial banks, foreign and local controlled commercial banks were '0.158', '0.171' and '0.150' respectively. Initial investigations further described that, National Bank of Pakistan, a commercial bank controlled by the Federal Government of Pakistan, reported the highest total capital employed and the profit after tax but its capital efficiency / return on equity was '0.164'; the 8th highest among the 24 commercial banks. The MCB Bank Ltd. with the 2nd highest total capital employed and the 3rd highest profit after tax had the highest capital efficiency of '0.286'. Bank Al-Habib Ltd.; a privately controlled bank with 7th highest profit after tax and total capital employed, had capital efficiency of '0.266'; the 2nd highest among 24 commercial banks, registered with KSE. Habib Bank Ltd.; a previously nationalized and recently denationalized one and handed over to a foreign institution, had 2nd highest profit after tax and the 3rd highest total capital employed, stood at the 3rd highest rank with '0.247' of capital efficiency. Chart I displays the Capital Efficiency (After Tax Profit / Total Capital Employed):

The confusing rather perplexing trend, displayed graphically in Table I, persuaded the Researcher to focus on the affairs.

1.2 Objective and delimitations of the study

The scenario, partially, supports the myth and forced the Researcher to go further into extensive literature review to search the logic to expose the myth which met with considerable success but the quest persuaded the Researcher to try to bust the myth that the foreign controlled banks do better, operationally, than domestic controlled banks. So, the decision to conduct the study on the topic; 'Foreign Banks are More Efficient – a Myth or Fact?' was taken. For the study, objectives kept before sight, were; to investigate into the shareholding pattern of the commercial banks of Pakistan, to explore the profitability and efficiency of the foreign controlled banks in Pakistan, and to study the impact of ownership on the profitability & efficiency of the commercial banks in Pakistan. The study was delimited to the exploration of shareholding pattern of the commercial banks registered with Karachi stock Exchange and to remain confined to the data available in the annual reports of Year 2007.

1.3 Significance of the Study

Kunt & Huizinga (2000) are of the view that financial systems of some countries are bank-based and the same for the other countries is market-based. For example, the financial systems of Germany and Japan can be termed as the bank-based as the banks play a leading role in saving mobilization, resource allocation, monitoring of investment-decisions of corporate managers and providing risk management vehicles to the corporate sector while the systems of United States and United Kingdom are more market-based. Further findings of Kunt & Huizinga (2000) show that in developing countries, the banking and financial systems are less developed but more bank-based and the role played by the banks in allocating the resources is particularly great as the resource and funds are scarce and nascent industry and enterprises have fewer sources of capital. How the banks play a crucial role, as the intermediaries among the different sectors of national economy, is evident from 'Figure 1':

Emphasizing on the importance of the interest rates and spread of the bank, Focus Report (2007) of CBSI describes that the interest, financial institution pays on the deposits & loans and the spread (difference between income from interest and costs on liabilities) are particularly important as it shows the efficiency of the intermediary. With the above statement in view, this study becomes of prime importance for the bank shareholders, investors, chief operating officers, directors, depositors and scholars at large.

1.4 Source of data and research procedure

Consolidated and audited annual reports of 24 commercial banks, presented to statutory bodies, were the source of data. The shareholding pattern of National Bank of Pakistan was taken as pattern to be followed and all the 24 significant shareholding classes of the subject commercial banks were tabulated. Means & ratios between different classes of the shareholders and total outstanding shares were calculated in order to analyze the current ownership structure. Then the shareholding classification was manipulated and bifurcated in order to separate classes having foreign shareholders and the correlations between different classes of the shareholders, and capital efficiency, bank efficiency, earnings per share and duration of operations were calculated.

2. Presentation of data and discussion

2.1 Percentage of different classes (categories) of shareholders to the total outstanding shares

The pattern of shareholding, of 24 subject commercial banks, explored, manipulated and tabulated in 24 categories (Table II, Column I and Chart II) displayed that the foreign investors (ordinary and companies) were holding 58.22% shares of the subject commercial banks, out of which foreign shareholding companies were holding 55.45% shares. Foreign associated companies, related parties and undertakings were having 40.46% shares as against, local associated companies, related parties and undertakings holding only 12.28% shares of outstanding shares. Federal government was holding a total of 0.10% shares in the commercial banks while the State Bank of Pakistan was holding 5.38% shares in the commercial banks. Kunt & Huizinga (2000) describes that comparatively strong bank-based financial systems of developing countries favor industrial establishment and capital allocation.

Initial investigations and the general scenario of financial markets, displaying split of controlling shares in the hands of foreign and local investors, is a healthy sign. On the other hand, a study by Gerschenkron (1962) that government controlled banks can help to avoid failures of financial markets, diverting the scarce domestic savings and funding to the strategically important national projects in which foreign banks may be reluctant to invest is also a considerable point of view. With a convincing argument that the strong government controlled banks support the national economy and the general public, one must keep in view the drawback, as well, pin pointed by Kwan (2004) that government controlled banks are normally less profitable than privately controlled ones. But, the huge profitability of National Bank of Pakistan Ltd. and excellent efficiency of The Bank of Punjab Ltd., are negating, to some extent, the findings of Tian (2000) that firms under government control are valued less than those under non-government control. They further explained their theory that a firm with a lower government stake in ownership is less valued than the one under government control. When the government stake increases (government assumes the control of the firm) in the firm, the value of the firm increases substantially.

2.2 Separation of ownership and control

The theory that societies with heterogeneous preferences and civil divisions reduce growth and public goods provision, presented by the Alesina, Baqir & Easterly (1999) and Banerjee, Iyer & Somanathan (2005) persuaded the Researcher to look into the relationship between the class of CEOs & directors, holding the 3.69% shares in 18 commercial banks and the class of executives, holding 0.02% shares in 10 subject commercial banks. Findings in the Table III appears to be alarming that correlation between class of CEOs & directors and class of executives is '-.022' as the Berle and Means (1932) are of the view that separation of ownership and corporate control may create a scenario in which the interests of the owner and the manager may move away from each other toward the opposite side and the system of check and balance may disappear. One must look into the prevailing financial scenario of commercial banks in the light of agency theory, developed and presented by Jensen and Meckling (1976), pointing out that the costs of deviation from maxim of profit maximization is reversely related to the stake of managers in ownership and resultantly, ownership may scatter.

Further, correlation between the class of CEOs & directors and profit before tax, EPS, bank efficiency and duration of operations is '-0.098', '0.007', '0.302' and '-0.007' respectively, which is self explanatory. CEOs and directors do not have shares in large quantity in which executives generally hold the shares. CEOs and directors seem to have no control on the profit before tax but to have control on the earnings per share and bank efficiency. Holding of posts of chief operating officer and the chairman of the board of directors, simultaneously, is not treated as typical for the bank's performance as is explained by Fogelberg and Griffith (2000). Two out of four correlations, related to earning per share and bank efficiency, calculated in Table III, seems to be of higher relevance to the class of CEOs & directors, informing one that financial affairs of the commercial banks are directly affected by the CEOs & directors as the CEOs and/or directors, generally, holds the managerial positions of the company as well. Announcement of the earning per shares and the administration of financial affairs are directly in the jurisdiction of the board of directors and ownership & control are not in the separate hands. Reflections of such situations should be viewed in the light of findings of Fogelberg and Griffith (2000) that more control of management in the hands of ownership creates the problems. Fogelberg and Griffith (2000) demonstrated, graphically, in Figure: 2 that bank performance goes up to some extent and then moves downward with the passage of time if the control of the banks is in hands of ownership.

Numerical findings of the Table III, regarding the correlation between the class of executives and profit before tax, EPS and bank efficiency ('0.156', '0.367' and '-0.022') point out that they have substantial but negative/inverse control on bank efficiency. Such phenomenon was reported by the Saunders, Strock & Travlos (1990) that bank risk had declined between 1978 and 1985 which was inversely related to the increase in the managerial ownership. Similar situation is explained by Jensen and Meckling (1976) with reference to their agency theory that executives seems to have negative control on the bank efficiency which is extremely worrying situation. But, the findings are rational one and only Bliss and Flannary (2002) examined this question by studying the publicly held banking companies and did not find any evidence that the stock and bond holders influenced the management decisions and this created the doubts about the effectiveness of the financial market in influencing the business strategies, adopted by managers.

Deep investigations at the individual level reveal that only 10 banks reported to have the executive shareholding class, with mean shares of 489142. Only three banks; Habib Metro Bank Ltd. Arif Habib Bank Ltd. and Habib Bank Ltd., reporting to have more than mean shares in this class, are having bank efficiency of '0.327', '0.540' and '0.412' respectively which is not a bad sign as the bank efficiency near or below '0.50' is considered to have an excellent one (King – 2009). The findings that the commercial banks with higher than normal executives shareholding class are more efficient; whether they are smaller units (Arif Habib Bank Ltd.) or bigger one (Habib Bank Ltd.), appears to be correlated with the findings of Kwan (2003) that management ownership appears to play a crucial role in firm performance. Berger et al, (2000) claim that if the ownership and control in a professionally controlled firm is separated, managers may lose interest in the management, resulting in insufficient work effort by them, choosing the working style suitable to their own choice, involving struggle for the perquisites or failing to maximize the profitability of the firm. Such a situation is prevailing in National Bank of Pakistan Ltd., today, where executives are taking least interested in the affairs of the bank and indulging in other negative practices. Similarly, Bearle and Means (1932) point out that the separation of ownership and control may create a conflict of interests between owners and managers. All the discussion in the section regarding the executive / managerial ownership relationship with bank efficiency and performance, verifies the literature. But, the policy of some banks, to keep the ownership and management separate, seems to reflect the theory of Berger et al (2000) and Bearle and Means (1932). The graphical position of the relationship between executives and different indicators of the financial position of commercial banks is presented in the Chart III:

2.3 General public(local & foreign) class of shareholders

As displayed in Table II, general public (local and ordinary foreign) classes of shareholders hold 9.71% & 2.48% shares, respectively, in the subject commercial banks. The correlation between the 'general public (local & ordinary foreign) shareholders' and 'profit before tax' is '0.158' and '-0.53' respectively. Logic behind the fact seems to be that the public decisions are instant and not long lasting. General shareholders decisions in favor of the highest profitable stock seem less logical and without any strong background. General shareholders typically ask for the EPS. The general public (local & foreign) is usually irrational one without caring about other factors and focusing mainly on EPS.

2.4 Bank efficiency

Bank efficiency formula followed, is proposed by King (2009) which says that the ratio measuring the efficiency and productivity of commercial banks is bank efficiency. It means it is the cost the bank has to incur, to earn return (revenue). The formula applied is:

$$\text{Efficiency ratio} = \text{non interest expenses} / \text{net interest income} + \text{non-interest income}$$

Non interest expenses and non-interest income are more “controllable” than net interest income. The average bank associate has little influence over what the bank pays on depositors' account or earns from the debtor but can influence the expenses and other sources of income. King (2009) is of the view that if a bank's efficiency ratio is 50% or below, all is well; if the ratio is 70% or more, it needs to be better. Bank efficiency ratios do not suit to every situation. If banks are providing the highest quality service costing higher than normal, the ratio may be significantly higher. Usually, the banks prefer lower one (king - 2009).

2.4.1 Analysis of findings about bank efficiency of subject commercial banks

As displayed in the Table IV, the mean bank efficiency of the 24 subject commercial banks is '0.67' which is, fortunately, still below dangerous level (see King – 2009). Bank efficiency of the foreign controlled banks is '0.43' while the same for the local controlled banks is '0.50', which is 14% higher than the foreign controlled banks and the bank efficiency of the foreign controlled banks is 35.83% more than the mean working of commercial banks while the local banks are working 25.37% more efficiently than the mean of 24 commercial banks. In the other words, one can say that the foreign controlled banks are working 14% more efficiently than the local controlled banks.

The scenario reflects the prevailing global one that as a whole, foreign banks perform better. But, surprisingly, the best bank efficiency ratio, '0.254', is of The Bank of Punjab Ltd.; a provincial government controlled bank and the 2nd best figure, '0.305', is for the government controlled bank, i.e. National Bank of Pakistan Ltd. The two best bank efficiency figures, maintained by the government controlled banks, arises many questions about the logic behind the scene, audit reports (reporting procedure and auditing companies) and the annual reports (window dressing etc.). The 3rd best bank efficiency, '0.327' is of Habib Metro Bank Ltd. with 60.34% shares in the hands of foreign investors. Two more prominent examples come from the Royal Bank of Scotland Ltd. and NIB Bank Ltd. (both foreign controlled banks with 99.22% and 90.06%, of shares in the hands of foreign investors) have bank efficiency of '0.703' and '0.771' respectively despite the fact that both the banks are reporting a loss for the year ending December 2007 and are passing through recent take over / merger) and still are in transition. Apparently recent foreign takeover/merger of local operations, the high cost service and recent rapid expansions may be the cause of high bank efficiency ratios and operating loss in these two foreign banks, reporting loss at the end of Year 2007. Still one more example of transition

and loss, is of Saudi Pak Bank Ltd. and Atlas Bank Ltd.; both reporting loss at the end of Year 2007, have entered into merger in the mid of June 2009 transforming into Silk Bank Ltd. The over all bank efficiency, calculated, of the foreign controlled banks is verifying the literature that foreign banks are more efficient as a whole.

2.4.2 Correlation between different classes of shareholders and profit before Tax & bank efficiency

As displayed in the Table III, the correlation calculated to be negative between the shareholders classes, with high percentage of foreign shareholders, and profit before tax. The most significant class of shareholders displaying the higher correlation '0.171' with profit before tax, is class of others (misc.), followed by the shareholders class of the general public (local) with a correlation of '0.158' with profit before tax.

The best correlation '1.000' score found is between State Bank of Pakistan and bank efficiency, followed by shareholders class of joint stock companies with a correlation of '0.422'. The 3rd best correlation '0.333' is found between the investment companies and the bank efficiency. A bulk of literature, including studies by Bonin et al., (2005), Claessens, et al., (2004), Mico, et al., (2004), Claessens et al., (2001) and Micco et al., (2004) about the foreign controlled banks report that ownership, particularly in the developing countries, have positive correlation with bank performance and foreign controlled banks also cause the enhancement of competitiveness of local controlled banks.

2.5 Analysis of EPS of subject commercial banks

Table IV displays that the mean earning per share, declared by the 24 commercial banks, is Rs. 5.59 and that of foreign and local shareholders' controlled commercial banks is Rs. 6.02 and Rs. 7.47 respectively which means that local controlled commercial banks are distributing 19.41% more money as a whole to the shareholders as earnings per share than the foreign controlled commercial banks. Fifty percent of the foreign controlled banks, with a mean EPS of Rs. 6.03, are distributing 7.29% higher dividend than mean EPS. On the other hand, 50% of local controlled banks with mean EPS of Rs. 7.47 are distributing 25.17% more than the mean EPS. Four (all foreign controlled banks) out of six commercial banks reporting loss for the year, also distributed the dividend to the shareholders which may shows their financial strength and accumulated previous earnings. But, as a whole, EPS of the local controlled banks is better.

2.6 Analysis of capital efficiency of the subject commercial banks

Mean of the capital efficiency of the 18/24 subject commercial banks (six commercial banks running into losses) is '0.157' while the same for the foreign controlled commercial banks is '0.171' which is 8.18% higher than the mean. On the other hand, mean capital efficiency of the local controlled banks is '0.151' which is 3.97% lower than mean for the 24 subject commercial banks and is 11.69% lower than foreign controlled commercial banks. One may say that foreign controlled banks are employing their capital 11.69% more efficiently than their local controlled competitors or their return on equity is 11.69% better than local controlled banks.

2.7 Analysis of duration of operations of subject commercial banks

The mean duration of operations (years) of subject commercial banks in Pakistan is 20.54 years while the same for the foreign and local controlled banks in Pakistan is 24.17 and 23 years, respectively. The mean of duration of operations (years) of commercial banks, reporting loss, at the end of year 2007 is 12.00. Foreign controlled banks have been operating in Pakistan 4.84% longer than the local controlled banks. Mean duration of operations of the commercial banks reporting loss at the end of Year 2007 is shortest. Empirical findings of the Table III did not support that longer the duration of operations, higher the bank efficiency, capital efficiency but the EPS. Rather, the negative correlation between duration of operations and profit before tax & bank efficiency is '-0.116' and '-0.285' respectively, exhibits the reverse relationship between them, i.e. the profitability of new commercial banks operating in Pakistan, as a whole, is better.

3. Conclusions

The findings of the study, regarding the bank efficiency, capital efficiency and EPS, summarized in Table V, mentions that according to two out of three financial indicators, the performance of the foreign commercial banks is 24.44% better than the local controlled banks in Pakistan.

Local controlled commercial banks in Pakistan are more profitable than foreign controlled ones as far as the volume of the profit is concerned which is reflected in their earnings per share but the foreign controlled commercial banks in Pakistan, as a whole are more capital efficient as compared to the local controlled commercial banks subject to few exceptions. The bank efficiency of the foreign controlled commercial banks in Pakistan is much better than local controlled commercial banks. Foreign shareholders are controlling more than fifty-five percent share in the subject commercial banks. The cause may be that; as their policies and practices are extra vigilant and cautious in relatively new and unfamiliar environment, the foreign controlled banks have better asset management and better operational efficiency which converts them to the more profitable and/or efficient banks than locally controlled ones. General public shareholders (local and foreign) are having minimal control on the commercial banks as they are controlling less

than ten percent of the shares of the commercial banks. The shareholders' class of CEOs & directors is having substantial control in the financial affairs of the banks and has a direct relationship with the earning per share and bank efficiency but less control on the profit before tax. The executives-shareholders seem to have fewer liaisons with class CEOs, directors and their spouses' but the executives have higher impact on the earning per share and bank efficiency.

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Table I. Capital Efficiency/Return on Equity ('Profit after Tax' to 'Total Capital Employed') Ratio of Commercial Banks Registered with Karachi Stock Exchange

S. No	Commercial Bank	Profit after Taxes (Rs. '000')	Ranking Column	Total Capital Employed (Rs. '000')	Rank Column	Capital Efficiency	Ranking Column 3
1.	MCB Bank Ltd.	57 547 322	16	16 441 670	17	.286	18
2.	Bank Al Habib Ltd.	8 325 318	7	2 211 333	7	.266	17
3.	Habib Bank Ltd.	63 237 429	17	15 614 020	16	.247	16
4.	The Bank of Punjab Ltd.	18 995 794	12	4 445 619	14	.234	15
5.	Askari Bank Ltd.	12 265 987	8	2 681 012	9	.219	14
6.	Habib Metro Bank Ltd.	13 519 908	9	2 797 408	11	.207	13
7.	Allied Bank Ltd.	19 878 242	13	4 076 158	13	.205	12
8.	United Bank Ltd.	42 421 404	14	8 402 590	15	.198	11
9.	Bank Al Falah Ltd.	16 219 844	11	3 130 229	12	.193	10
10.	Meezan Bank Ltd.	5 706 656	3	963 501	6	.169	9
11.	National Bank of Pakistan Ltd.	116 337 654	18	19 033 773	18	.164	8
12.	Faisal Bank Ltd.	16 156 503	10	2 272 108	8	.141	7
13.	Soneri Bank Ltd.	7 113 047	6	701 041	5	.099	6
14.	Standard Chartered Bank Ltd.	43 066 310	15	2 764 039	10	.064	5
15.	MyBank Ltd.	5 942 320	4	340 319	4	.057	4
16.	KASB Bank Ltd.	4 283 992	1	197 693	2	.046	3
17.	Arif Habib Bank Ltd.	6 301 576	5	230 165	3	.037	2
18.	JS Bank Ltd.	5 193 807	2	35 431	1	.007	1
	<u>Mean</u>	<u>3323246</u>		<u>21732604</u>		<u>.158</u>	
Commercial Banks reporting Loss							
19.	Saudi Pak Bank Ltd.	2 180 439		-3 040 907		.	
20.	Royal Bank of Scotland Ltd.	5 065 795		-1 564 764		.	
21.	SAMBA Bank Ltd.	6 202 158		-1 322 892		.	
22.	Atlas Bank Ltd.	5 184 240		-309 044		.	
23.	NIB Bank Ltd.	36 592 034		-305 557		.	
24.	BankIslami Ltd.	3 844 726		-37 023		.	

Table II. Kendall's tau_b Correlation Test (1-tailed) between 'Different Classes (Categories) of Shareholders', 'Profit before Tax' and 'Bank Efficiency'

Categories of Shareholders	N	%age to Total	Profit before Tax (Correlation)	Ranking of Col. 4	Bank Efficiency (Correlation)	Ranking of Col. 6
1	2	3	4	5	6	7
1. Total Foreign Investors	24	58.22	-.072	14	-.098	11
2. Foreign Shareholding Companies	19	55.45	-.240	20	-.106	12
3. Associated Companies	18	50.96	-.399	22	-.341	19
4. Foreign Associated Companies	9	40.46	-.167	18	.141	6
5. Local Associated companies	18	12.28	-.098	15	-.059	9
6. Banks, DFIs, Financial inst	20	9.81	-.147	17	-.216	15
7. General Public (Locals)	20	9.71	.158	7	-.121	13
8. State Bank of Pakistan	20	5.38	1.000	1	1.000	1
9. CEOs, directors and their spouses	18	3.69	-.098	16	.302	4
10. Others	21	2.78	.171	6	-.138	14
11. Ordinary Foreign Shareholders	20	2.48	-.053	12	.142	5
12. Investment Companies	24	1.56	.156	8	.333	3
13. Joint Stock Comp[any	24	0.86	-.067	13	.422	2
14. Charitable Trusts	18	0.81	.400	3	-.400	20
15. Insurance Companies	19	0.77	.064	10	-.059	9
16. Modarbas and Mutual Funds	15	0.67	.276	5	.038	7
17. Public Sector Companies	4	0.66	.000	11	.000	8
18. NIT & ICP	13	0.55	-.205	19	-.219	16
19. NBP and IDBP Benevolent Funds	5	0.58	.527	2	-.316	17
20. Privatization Commission of Pak	24	0.21
21. Federal Government	4	0.10	-.333	4	-.333	18
22. SECP	2	0.00	-1.000	23	-1.000	21
23. Executives	10	0.02	.156	9	-.090	10
24. Cooperative Societies	9	0.01	.333	21	-.333	18

Table III. Kendall's tau_b Correlation (1-tailed) between 'CEOs, Directors & their Spouses' and Executives' Classes of Shareholders and 'Profit before Tax', 'EPS', 'Bank Efficiency' & Duration of Operations

	CEOs & Directors	Executives	Profit Before Tax	EPS	Bank Efficiency	Duration of Operations
1. CEOs, directors and their spouses	1	-.022	-.098	.007	.302	-.007
2. Executives	-.022	1	.156	.367	-.022	-.046
3. Profit Before Tax	-.098	.156	1	.261	.207	-.116
4. Earning Per Share	.007	-.022	.261	1	-.149	.264
5. Bank Efficiency	.302	-.090	.207	-.149	1	-.285
6. Duration of Operations (Years)	-.007	-.046	-.116	.264	-.285	1

Table IV. Percentage of Foreign Shares in Total Outstanding Shares, Bank Efficiency & Duration of Operations

Subject Commercial Banks	%age of Foreign Shares	Bank Efficiency	EPS	Capital Efficiency	Duration of Operation (Years)
	1	4			7
<u>Foreign controlled banks</u>					
1. Standard Chartered Bank Ltd.	99.00	.545	.17	.064	2
2. Faisal Bank Ltd.	82.69	.371	4.29	.141	3
3. Meezan Bank Ltd.	81.32	.509	2.55	.169	15
4. United Bank Ltd.	70.52	.413	10.38	.198	48
5. Habib Metro Bank Ltd.	60.34	.327	5.59	.207	16
6. Habib Bank Ltd.	51.21	.412	13.18	.247	61
<u>Mean (From 1-6)</u>	<u>.429</u>	<u>.43</u>	<u>6.02</u>	<u>.171</u>	<u>24.17</u>
<u>Local Controlled banks</u>					
7. Bank AlFalah Ltd.	33.64	.545	4.82	.193	2
8. KASB Bank Ltd.	27.08	.808	.90	.046	13
9. MCB Bank Ltd.	25.38	.188	24.30	.286	62
10. MyBank Ltd.	8.24	.456	.87	.057	2
11. National Bank of Pakistan Ltd.	7.06	.305	23.34	.164	61
12. Soneri Bank Ltd.	6.19	.468	1.70	.099	15
13. Askari Bank Ltd.	3.65	.436	8.92	.219	15
14. Bank AlHabib Ltd.	2.84	.502	6.01	.266	16
15. JS Bank Ltd.	0.42	1.077	.09	.007	5
16. Allied Bank Ltd.	0.35	.426	7.57	.205	67
17. Arif Habab Bank Ltd.	0.22	.540	.65	.037	2
18. The Bank of Punjab Ltd.	0.13	.254	10.53	.234	16
<u>Mean (From 7-18)</u>	<u>.500</u>	<u>.50</u>	<u>7.47</u>	<u>.151</u>	<u>23.00</u>
<u>Foreign & local controlled banks reporting loss</u>					
19. Royal Bank of Scotland Ltd.	99.22	.703	1.16	-	11
20. NIB Bank Ltd.	90.06	.771	.18	-	7
21. SAMBA Bank Ltd.	68.47	1.946	1.82	-	27
22. Saudi Pak Bank Ltd.	63.67	1.165	6.25	-	7
23. BankIslami Ltd.	4.09	1.164	(.13)	-	4
24. Atlas Bank Ltd.	0.00	1.712	(.93)	-	16
<u>Mean (From 19-24)</u>	<u>1.243</u>	<u>1.244</u>	<u>1.39</u>	<u>.157</u>	<u>12.00</u>
<u>Mean (1-24)</u>	<u>36.91</u>	<u>0.67</u>	<u>5.59</u>		<u>20.54</u>

Table V. Summary of Findings of the Study

Subject commercial banks				
	Foreign Controlled	Local Controlled	Better Performance	Percentage
Bank efficiency	.430	.500	Foreign controlled	14.00%
Capital Efficiency	.151	.171	Foreign controlled	11.69%
EPS	Rs. 6.02	Rs. 7.47	Local Controlled	19.41%
<u>Sum</u>				<u>25.69%</u> <u>19.41%</u>
%age of foreign banks performance to local controlled banks' performance				<u>24.44%</u>

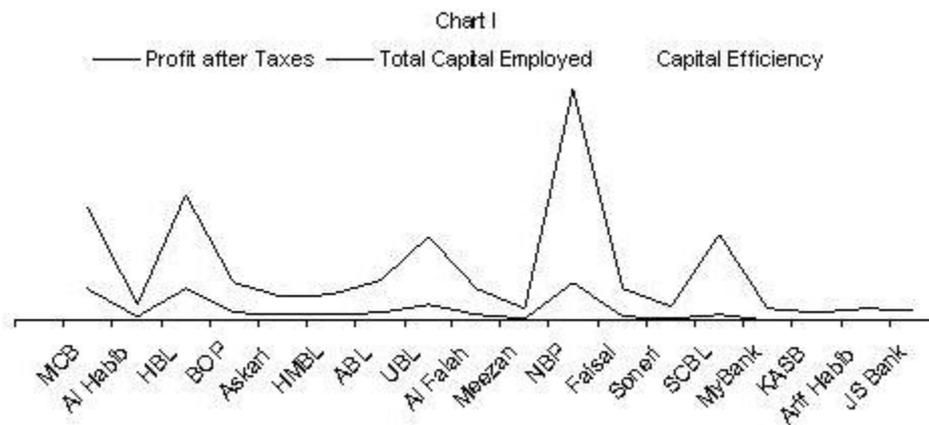
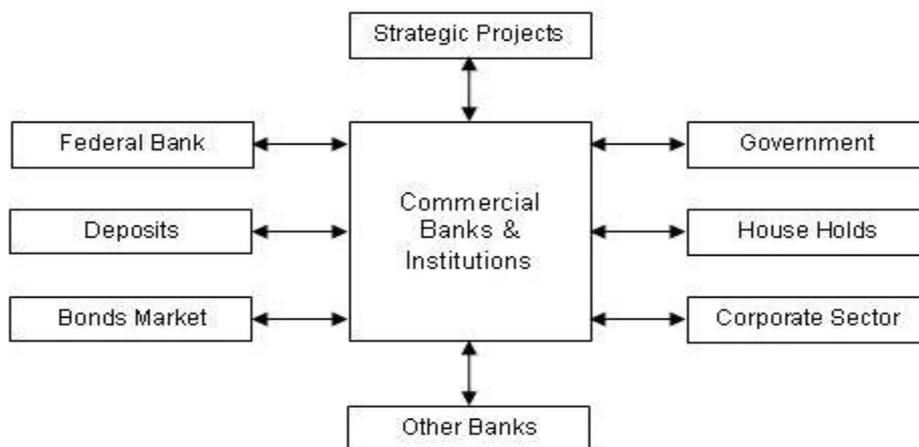
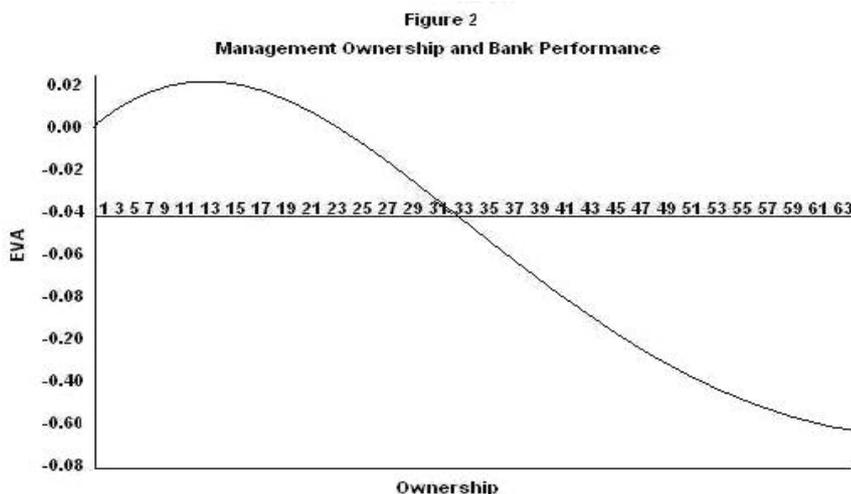
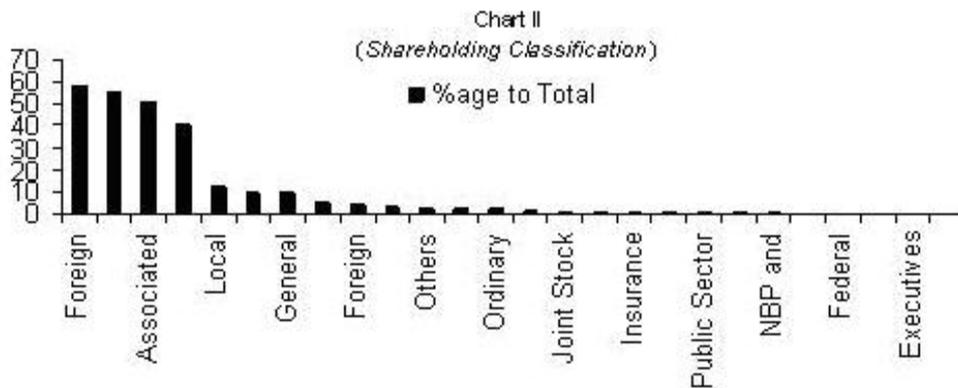


Figure 1



(Adopted, with thanks and minor modifications).

Source: Valentino, Piana (2002). Internet Rates. <http://www.economicwebinstitute.org>



(Adopted with thanks and minor modifications)

Source: Fogelberg, Lawrence and Griffith, John M. (2000), Control and Bank Performance. *Journal of Financial and Strategic Decisions*, Volume 13, Number 3, Fall 2000, 63.

