CHAPTER II

A REVIEW OF STUDIES ON BANKING

An academic study on the performance of the nationalised banking sector in India is very important and pertinent in the context of its structural existence. Before taking up such an exercise, an attempt is made in this section to present a review of the available studies in the relevant area of banking.

Organised or formal research in banking and related areas is of recent origin in India. The research studies conducted in the field of banking in India and abroad relate mostly to institutional, functional and developmental activities of banks.

Karkal in his book 'Perspectives of Indian Banking' has dealt with the various problems and difficulties of the banking activities after the introduction of the new social policy in banking. He analyses the implications of the changed situation in the organisation and functions of banks.

---

and the techniques the banks should adopt for achieving optimum efficiency.

Mathur in his book 'Public Sector Banks in India's Economy - A Case Study of State Bank of India' has evaluated the role of the public sector banks as an instrument for the rapid growth of the Indian economy. In the process of analysing that role he has made a thorough study of the working of the State Bank of India and its seven subsidiaries.

Agarwall in his book 'Management of Nationalised Commercial Banks in India with Reference to their Social Obligations' has assessed the performance of nationalised banks in discharging the various social obligations. There being no absolute line of measurement in this regard, an effort has been made to evaluate the performance of the nationalised banks in discharging the various social obligations on the basis of a comparison with the performance of other bank groups. For the assessment of their individual

---

3 Agarwall, H.N., Management of Nationalised Commercial Banks in India with Reference to their Social Obligations, Inter-India Publications, Delhi, 1979.
performance, the line of assessment adopted was the average performance of all the nationalised banks in toto.

Seshadri⁴ in her book 'Banks Since Nationalisation' has analysed the achievements of the nationalised banks with those that were left in the private sector. The progress achieved by these banks in the sphere of branches, deposits, advances etc. were analysed with secondary data available from various banks, the Reserve Bank of India and so on. The efficiency and profitability of the nationalised banks too were analysed.

Agarwall⁵ in his book 'Commercial Banking in India After Nationalisation - A Study of their Policies and Progress' analysed the performance of commercial banks in India after nationalisation. It was neither an empirical study nor the study of a particular aspect of commercial banking. It was only a study of banking development in the light of nationalisation. Annual reports of banks, periodical reports

⁴ Seshadri, I.J.H., Banks Since Nationalisation, Birla Institute of Scientific Research, New Delhi, 1981.
of the Reserve Bank of India, personal discussion with bank officials and so on were the major sources relied on for the study.

Hussain in 'A Study of New Roles of the Public Sector Commercial Banking in India' analyses the major problems faced by the public sector banks in India. As national public sector institutions, they are required to face new challenges. How can the new developmental, organisational, managerial and functional problems be solved? How best can they serve the priority sectors for economic regeneration and what should be the strategy for dynamic commercial banking policy in India - were some of the basic problems discussed in the book.

Chawla in his book 'Nationalisation and Growth of Indian Banking' has investigated the development and growth of banking activities in India with particular reference to the state of Punjab. The analysis was carried out with the help

---

of different types of growth rates; indices of changes were also calculated. Certain statistical tools like co-efficient of variation and rank correlation too were used in the study.

Chandrayya has undertaken a study 'Structural Changes in the Credit Deployment Policies and Practices of Commercial Banks in India- A Case Study of Andhra Bank'. The study was confined to the period 1969 - 1984. The researcher has examined the various changes that took place in the structure, organisation and composition of credit deployed by the commercial banks in India and the varied problems experienced both by the lending authorities as well as the borrowers and suggested feasible ways and means to overcome these problems.

Prabhu in 'Excellence Through People: The Canara Bank Way', explains how an organisation can achieve its changing goals from time to time by following the right type of policies. He has made an attempt to share his experiences.

---


thoughts and views on creating and sustaining organisational excellence through people.

Jagwant in his book 'Indian Banking Industry: Growth and Trends in Productivity' examines the trends in productivity in public sector banks excluding the six banks nationalised in 1980. He has analysed the trends and changes in productivity, with particular emphasis on labour productivity and branch productivity. The trends, changes and differentials in productivity in different banks and bank groups are examined in detail based on seventeen indicators. The main source of data for the study was Financial Analysis of Banks published by Indian Banks Association and Annual reports of banks.

Rajendran in his comparative study of the public sector and private sector banks during the year 1990-91 has chosen three profitability ratios and six balance sheet...
ratios. He has brought eight scheduled private sector banks, three nationalised banks and the State Bank of India within the purview of his study.

Giridhari\(^{12}\) in his paper has narrated the growth of private sector banks and public sector banks as a whole for a three year period - 1989 to 1991. The growth is narrated both figure-wise and percentage wise. The important variables considered in the study include - paid up capital, deposits, advances, priority sector credit, investment, income, expenditure, profit as also per employee deposits, advances, profit, investment, branch, expenditure etc. Though the study is empirical in nature, the individual performance of the banks is outside the purview of the study. An integrated picture of the performance of the two sectors too is beyond the scope of the study.

The Banking Commission\(^{13}\) undertook a comprehensive research study of the entire banking system of the country and

---


came out with salient policy level recommendations in 1972. It reviewed bank operating methods and procedures and made recommendations for improving and modernising operating methods and procedures, particularly relating to customer service, credit procedures and internal systems. The various possible ways in which the banking system could assist economic development was explored.

The PEP Committee on Banking constituted to study the productivity, efficiency and profitability of commercial banks has used four criteria: namely, productivity, social objectives—spatial, social objectives—sectoral and profitability. Under each criterion, it used a set of indicators. It also examined aspects like planning, budgeting, marketing, management information systems, annual accounts, audit systems, procedures and so on. It analysed banking costs, profitability of operations, pricing of bank services, trends in earnings and expenditures etc. and made a number of recommendations. The study was experimental in nature and it categorically stated that the set of indicators

---

used by it does not represent either the first or the last choice.

The Committee on the Functioning of Public Sector Banks\textsuperscript{15} appointed by the Reserve Bank of India in 1977 has made a broad evaluation of the performance of public sector banks in the country covering the spheres of branch expansion, deposit mobilisation, credit disbursement, priority sector lending, efficiency, management - employee relations and so on and made recommendations to ensure improvement in the efficiency of their operations and to restore their financial health. The Committee made a pragmatic evaluation of the actual performance and functioning of the public sector banks during the period 1969 to 1977. It collected data from banks, bank staff, other financial institutions, commercial associations and so on.

The Committee on the Financial System\textsuperscript{16} appointed by the Government of India (Narasimham Committee), in 1991


examined all aspects relating to the structure, organisation and functions of the Indian financial system. It made wide ranging recommendations with a view to ensuring flexibility, functional autonomy and thereby enhancing efficiency, productivity and profitability of the banking sector and the financial system. It examined the cost, composition and adequacy of the capital structure of the various financial institutions and reviewed the relative roles of the different types of financial institutions in the financial system and recommended ways to improve the efficiency and effectiveness of the system with the emerging credit needs of the economy. Its recommendations include, inter alia capital adequacy norms, prudential norms for income recognition, provisioning for bad debts, transparency of bank balance sheets, liberal branch licensing policy and so on.

By integrating the field of commercial banking with economic planning in India, Basu in his research study presented a picture of the dynamic role which the commercial banking system can play to help in the process of economic development in the country. The study underlined in detail

the development of the commercial banking sector in the pre-nationalisation period and evaluated the diversified role the commercial banks have been called upon to play.

Nayan\(^\text{18}\) in his research study has made a comparison of the performance of individual nationalised banks with that of the banking system as a whole. An attempt was made to build up a model for the performance evaluation of the banks.

Rastogi\(^\text{19}\) in his study evaluated the trends in Indian banking after nationalisation. He made an effort to ascertain how the banks were in a position to cater to the banking needs of the Indian masses. He made an effort to suggest ways and means for further development of banking. The data for the study were collected from the Reserve Bank of India and different other agencies directly or indirectly engaged in the task of developing banking facilities in the country. The reports of the various committees and study groups appointed

---

by the Government of India and the Reserve Bank of India too were extensively used in the study.

Yadav evaluated the working of Syndicate Bank in its northern zone and ascertained whether it was working on the lines suggested by the Government of India and the Reserve Bank of India. With the help of an analytical and comparative study, the researcher has ascertained whether Syndicate Bank has been successful in the northern part of the country and how far it has been able to achieve the objectives of nationalisation by accelerating banking facilities in the rural, remote and the neglected areas.

Jain in his research study has made an attempt to examine and analyse the funds management policies in selected nationalised banks. The study examined how the funds have been acquired and utilised by banks since nationalisation to achieve the stipulated objectives. Various published sources such as The Reserve Bank of India Bulletins, Statistical 


Tables relating to banks in India. Trends and Progress of Banking in India, Report on Currency and Finance, Annual reports of nationalised banks, Indian Banks Association publications, etc. provided the required data for the study.

Prasad\textsuperscript{22} in his study examined the entire activities and operations of the State Bank of India with particular emphasis on the various aspects viz. deposit growth, credit expansion, branch expansion merchant banking and so on. The study made also an appraisal of the performance of the entire nationalised commercial banks.

Shete\textsuperscript{23} and Karkal in their study analysed the performance and prospects of the Regional Rural Banks in extending rural credit and in profitability performance. The study was based on the secondary data published by the Reserve Bank of India and NABARD. The study covered 196 RRB's in respect of geographical spread, business performance, and financial performance.

\textsuperscript{22} Prasad, Narendra, 'Performance of State Bank of India Ph.D. Thesis, Magadh University, Bodh-Gaya, 1984.

\textsuperscript{23} Shete, N.B. and Gopal, Karkal, 'Profit and Profitability of Regional Rural Banks,' National Institute of Bank Management, 1989-90.
Chawla in his study focussed on the policy making and management practices in relation to deployment of funds in banks in the context of the rapidly changing environment. He focussed on the objectives and strategies of funds management, structure of roles and relationships and organisation set up of the banks. Twenty six Indian banks, both in the public as well as private sector, were covered in the study. The study was based on detailed structured interviews with head of Funds and Investment Departments of the banks, preceded by discussions with top management personnel. The study brought out the major systematic deficiencies in the banks funds, planning, co-ordination and control systems.

Chawla in his study focused on several segments of banks financial statements to provide an assessment of the financial health of different bank groups. The study was based on an analysis of financial and related data available in the Annual reports of banks and the Reserve Bank of India.

publications. The study covered a period of twenty years from 1969 to 1989.

Bose in her study on 'Trend and Progress of Banking in India' has tried to analyse the connection between banking and economic development during the first three five year plan periods. The problem was studied under two aspects, viz. the impact that economic development had on banking in India and secondly, the role the banking system could play in economic development. To study the problem, she analysed the changes in the volume, character and composition of bank deposits and loans. A survey too was conducted to know the changing character of commercial banking in India.

Rangarajan in his paper examined the extent to which the common man has been helped by the banking system in India since the nationalisation of the major banks in 1969. The study revealed that the disparities which existed with respect to banking infrastructure in the country was very

---

large. It revealed that the fruits of banking are even now enjoyed mostly by the 'elite'.

Shetty\textsuperscript{28} critically examined the extent to which the banking system in India has been able to achieve the objectives set before it initially by the scheme of social control and subsequently by the nationalisation of banks. It was observed that no major structural change has occurred in the composition of deposits and the banks have failed to improve their credit-deposit ratio over the time. Obviously rural areas were neglected in the opening of bank branches too.

Divatia\textsuperscript{29} and Venkatechalam in their study of operational efficiency and profitability of banks proposed to create a composite index, which would explore certain indicators that would suitably represent varied aspects of banks performance. They recognised the problems in creating

\begin{flushright}

\textsuperscript{29} Divatia, V.V. and T.R. Venkatachalam, 'Operational Efficiency and Profitability of Public Sector Banks'. RBI Occassional Papers, (June, 1978), pp.1-16.
\end{flushright}
such a composite index. The indicators chosen for the study were divided into (a) operational efficiency, in terms of productivity (b) operational efficiency in terms of social objectives and (c) profitability.

Shah in various papers discussed bank profitability and productivity. He disapproved the attitudes of banks that higher profitability can result from increased spread and that innovations have a limited role. He emphasised also on reduction of costs, creation of a team spirit, improvement in the management for improving bank profitability and productivity.

Varde and Singh in a study of profitability of commercial banks over a period of fifteen years gave consideration to two types of factors that affect interest

---


rate levels, i.e., external factors like monetary policy, fiscal policy, interest rate policy etc. and internal factors, including operational and managerial efficiency of individual banks.

Kulkarni\textsuperscript{32} in his study on developmental responsibility and profitability of banks stated that while considering bank's costs and profits - social benefits arising out of bank operations cannot be ignored. He claimed that profit maximisation approach is out of place while referring to profitability of banks. He recognised that while fulfilling the social responsibility, the banks should try to make the developmental business as successful as possible, reduce costs, improve banking system and increase the overall productivity.

Angadi\textsuperscript{33} in his paper puts forth a proposition that operational efficiency of a bank is inversely related to the responsiveness of operating costs to the changes in output.


The ratio of proportionate change in operating cost due to proportionate change in output is treated as a measure of responsiveness of operating costs. Recognising the external and internal factors that affect productivity, he expressed the view that operating cost measures most of them. In his opinion efficiency is an important yardstick for measuring bank performance.

Ojha\textsuperscript{34} in his paper gave a detailed description of the concepts, productivity and profitability of public sector banks and outlined the difficulty of measuring those concepts. He studied these aspects with a number of indicators and outlined that the profitability of the banks has not been improving despite increases in productivity. On an international comparison our public sector banks showed very low level of productivity and profitability. He emphasised that a more comprehensive and multi-dimensional approach has to be adopted to increase productivity and profitability.

Varde\textsuperscript{35} in his conference paper distinguished between effectiveness, efficiency and productivity. He classified the efficiency of a bank into four categories, i.e., (1) manpower efficiency (2) operational efficiency (3) commercial efficiency and (4) efficiency of ancillary business. Efficiency under each category can be measured separately, and measure of efficiency can be considered as productivity.

Bankers Training College\textsuperscript{36} in its conference paper made an attempt to bring out the factors generally affecting efficiency and productivity. It recognised that business per employee and ratio of average business to establishment expenses are the most popular indicators of productivity. However it favoured a 'Disaggregated Approach' for measuring the efficiency and productivity of banks.

Department of Banking Operations and Development.


The Reserve Bank of India in its conference paper observed that the rapid expansion of banking activities called for a phase of consolidation to improve the quality of banks' operational efficiency, productivity and customer service. It noted that poor quality of bank assets continues to be a cause for concern in view of large scale industrial sickness and widespread defaults in repayment of banks' dues. It emphasised the need for sustained efforts to improve bank productivity and profitability.

Sooraj and Ganti in their paper 'Comparative performance of Public Sector Banks in India' used the taxonomic method to measure inter-bank comparisons of performance of twenty eight public sector banks in India. In their study the bank performance index is based on three income indicators - percentage of interest and discount income, commission and brokerage-income and other income - and three expenditure indicators - percentage of interest expenses, manpower expenses and other expenses. The analysis was carried out with the help of differential weights and equal weights to each variable.

Shattacharyya in his research article examined whether customer service in the banking industry was really deteriorating. He examined the issue using two field surveys conducted by the National Institute of Bank Management in 1974 and 1984. Based on the study he concluded that an unqualified assertion that customer services have deteriorated in the post-nationalisation phase was empirically untenable.

---


expenses, manpower expenses and other expenses. The analysis was carried out with the help of differential weights and equal weights to each variable.

Bhattacharyay\textsuperscript{39} in his research article examined whether customer service in the banking industry was really deteriorating. He examined the issue using data from two filed surveys, conducted by the National Institute of Bank Management in 1974 and 1984. Based on the study he concluded that an unqualified assertion that customer services have deteriorated in the post-nationalisation phase was empirically untenable.

Reserve Bank of India Committee on Customer Service in Banks (1991) (Goiporia Committee)\textsuperscript{40} undertook a detailed customer survey covering different categories of bank customers. The Committee has made 97 wide ranging recommendations to improve the customer service in banks.


\textsuperscript{40} Reports of the Committee on Customer Services in Banks (1991), (Headed by Goiporia), \textit{Indian Banking Year Book}, 1994.
The forgoing review reveals that, with the exception of a few, no systematic and scientific effort has ever been made towards a critical analysis of the performance effectiveness of the nationalised banking industry in India. While there have been several piecemeal studies on some aspects of the banking performance, the results fail to bring out the overall resultant picture about the performance. No systematic effort has been made to review the extent of performance of the nationalised banks which are bound to play a dominant role in the national economy. Further, none of the studies covered an evaluation of the impact of the Financial Sector Reforms on the banking sector. In this context, the present study would be a pioneering venture at analysing the performance effectiveness of the nationalised banks in India.