Chapter VII

SUMMARY AND CONCLUSIONS

In this concluding chapter, we present, in brief, summary of main findings and the implications of the study. In the light of the above, an attempt has also been made to suggest the new areas of research on the subject and further refinement in the methodology adopted in the present study to develop the performance evaluation model.

VII.1 SUMMARY OF FINDINGS

The present study relates to performance evaluation of two of the nationalised commercial banks and their different categories of branches. These banks were randomly selected, one each from the large-size and small-size groups. In all, 60 branches were selected on the basis of judgment sampling from these banks. Both primary and secondary data have been used for performance evaluation. The data relate to ten years, the decade of seventies, in the case of banks, whereas for branch-level performance data for two years, 1978-79, collected through field investigation, have been analysed.

The main findings of the study, under different headings, are summarised below for banks as a whole as well as their branches:
VII.1.1 BANK LEVEL PERFORMANCE

VII.1.1.1 Branch Expansion

Unprecedented branch expansion since nationalisation of 14 commercial banks resulted in over 182 per cent increase in the number of branches for the banking system in India during the decade of seventies (1970-79), corresponding to a compound rate of growth of about 11 per cent p.a. As compared to this, bank Y achieved about 309 per cent rise in its total number of branches during this period, average annual growth rate being 15.12 per cent, whereas bank X lagged behind with only 117.5 per cent increase in their total number of branches, a growth rate of only 8.08 per cent p.a. Moreover, bank Y, a smaller bank, achieved a wider spread of bank offices by considerably increasing its shares of rural and semi-urban branches as compared with bank X and the banking system as a whole.

VII.1.1.2 Deposit Mobilisation

The deposit mobilisation efforts of both the sample banks were, on an average, below the industry average. Between the two banks, however, bank Y again performed better, particularly since 1975, with an average annual growth rate of 17.39 per cent (industry average = 13.63 per cent) than bank X (16.74 per cent). Obviously, the rise in deposit has been closely associated with the rate of branch expansion.
The composition of deposits experienced little change over the decade in respect of bank Y, the proportion of its demand deposits (current + savings accounts) remaining around 45 per cent throughout the period. In contrast thereto, it showed a declining trend both in the case of bank X (from 57.8 to 48.1 per cent) and the banking system (from 40.8 per cent to 36.6 per cent).

VII.1.1.3 Loans and advances

The total advances of all Indian scheduled commercial banks increased more than four times over the period under study with an average annual growth rate of 16.71 per cent. The sample banks achieved relatively lower rates of growth (a little over 15 per cent), the performance of bank Y being marginally better than bank X. These rates of growth in all the three cases were lower than those of deposits. Thus, the credit-deposit ratios tended to decline over the period in all the cases. This decline is also explained partly by the higher statutory liquidity ratios (SLR) as stipulated by the RBI from time to time. Throughout the period, however, the C-D ratios of bank X and Y remained considerably below the industry average. This calls for a better management of resources by these banks.

As regards the composition of advances, there has been a structural change in the advances portfolio of the commercial banks after nationalisation. The emphasis shifted from
security-based industrial advances to need-based priority sector advances. As a result, the priority sector advances increased at a much faster rate than the total advances. The growth rates in respect of bank X (26.39 per cent) and bank Y (22.29 per cent) were, however, much better than that of the industry (19.37 per cent). These banks started with a relatively low base in 1970 and their priority sector advances gradually picked up by the end of the decade, resulting in a higher rate of growth. Despite the high growth rates, none of the banks achieved the minimum priority sector 'target' of 33.3 per cent of total advances. Yet, bank X performed better than both bank Y and the industry.

Another significant feature of priority sector lending has been a wider spread of the benefits by enlarging the number of accounts at a faster rate than the amount of loan. But the size of priority sector account of bank X (Rs 9460 per account) is larger than bank Y (Rs 7990) as well as the industry (Rs 5360).

As regards the TRI advances, bank X's performance is better than both the industry's and bank Y's, as the bank is nearer the stipulated target in most of the years and has crossed the same in the last two years. Bank Y, on the other hand, could not even achieve half of the targets.
VII.1.1.4 Cash Management

The cash-deposit ratios show fairly wide variations, but during the last three years (1977-79), these have tended to rise considerably perhaps due to the statutory cash reserve requirements as stipulated by the RBI from time to time. Almost the same trend is visible in the case of working cash reserve ratios. However, these ratios for the sample banks have throughout been higher than the industry average. These banks, particularly bank Y, need to streamline their cash management practices for obtaining better operational efficiency.

VII.1.1.5 Profitability

Profitability (net profit as percentage of deposits, advances and working funds) of both the sample banks was better than the industry average. Thus, the size of the bank does not appear to have a direct bearing on profitability. Between the sample banks, the profit performance of bank X was better than that of bank Y, despite its lower spread ratios (difference between interest earned and interest paid). This has been possible mainly because of lower establishment expenses or, conversely, better wage productivity.

VII.1.2 Branch Level Performance

VII.1.2.1 Deposits

The composition of deposits of the sample branches of both the banks differs significantly. Bank X had a higher
share of time deposits only in urban branches whereas bank Y had a higher proportion of these deposits both in urban and rural centres. Consequently, all the sample branches taken together, demand deposits preponderate in bank X, whereas the reverse is true for bank Y.

Size of demand deposit accounts in rural branches of bank X is bigger than in those of bank Y, perhaps due to better economic conditions of farmers in Punjab, where bank X's branches under study are located, as compared to those of bank Y which are located in a relatively poor state of U.P. While the demand deposits are lower in the case of bank Y, its overall cash-deposit ratios in respect of the sample branches, particularly in semi-urban and rural areas, were much higher. This indicates the need for a better cash management in these branches.

A comparison of the branch-level performance of the two banks with their respective performance budgets indicate that while bank Y's branches have been able to mobilise deposits in excess of the targets fixed by the top management, bank X has lagged behind the targets in both the years under study.

VII.1.2.2 Advances

The urban branches under study distributed more than half of the total advances of all the branches taken together, despite their lower number, in all cases. The larger size
of the urban branches and greater opportunities for loans and advances in urban areas explain the situation.

As regards the priority sector credit, semi-urban and rural branches together played a more dominant role by providing, in the aggregate, over 60 per cent of these advances. Again, the smaller size of these advances (amount per account) indicated that the semi-urban and rural branches had been increasingly reaching out to small people, particularly the weaker sections of the society. In this respect, branches of bank Y performed much better.

Barring the urban branches of bank X, the C–D ratios of all the branches under study were far below the prescribed norm of 60 per cent. The performance of rural branches, in this regard, was pathetic, as they were able to advance only 30 per cent of the total deposits.

So far as the composition of the priority sector advances is concerned, SSI advances have played the most important role in all types of branches of bank X, in urban branches its share being around 90 per cent. Agricultural advances were second in order of importance in semi-urban and rural branches of bank X. As again this, agricultural advances were the highest in rural branches of bank Y and accounted for over four-fifities of priority sector advances of these branches. A relatively less significant
role played by SSI advances in the case of bank Y, as compared to bank X, may be attributed to a relatively lower industrial base in the state of U.P.

The DRI performances for urban branches were far below the norm in both the cases. Semi-urban and rural branches of bank X showed a slightly better performance, but still remained below the target. Only the DRI performances of semi-urban and rural branches of bank Y exceeded the target.

VII.1.2.3 Recovery

A large majority of urban branches were able to recover over 60 per cent of their priority sector advances. Semi-urban branches improved their recovery position in 1979, though their performance remained worse than their urban counterparts. The recovery position of the rural branches remained the poorest, as 36 to 47 per cent of these branches of bank X and 56 to 62 per cent of bank Y could recover less than 40 per cent of their advances.

VII.1.2.4 Cost and Profitability

Interest paid on deposits constituted a major portion of costs. However, the higher interest cost was matched by higher interest income either on advances or from Head Office, or both. Interest received from Head Office played a very significant role in income generation of all types of branches
particularly semi-urban and rural branches of bank X where it accounted for 80-85 per cent of total income. This unusual situation reiterates the fact that, as a result of low credit-deposit ratios, funds were being diverted in most of the cases from these branches to Head Office for investment elsewhere.

Profitability with respect to deposits as well as the working funds was the maximum in the case of urban branches of both the banks, followed by semi-urban and rural branches respectively. The profitability of the branches of bank Y was relatively low, mainly due to higher establishment cost. Moreover, bank Y paid a lower rate of interest (Y) to its branches than Bank X (X).

VII.1.3 INTEGRATED PERFORMANCE INDEX

A simple 'performance evaluation model' has been developed by incorporating major, quantifiable parameters of 'national priorities' and 'operational efficiency' and assigning them appropriate weightage. It has made it possible to evaluate and rate the overall performance of the banks and their different categories of branches under study in terms of an Integrated Performance Index (IPI). The variations in IPI has also been explained with reference to scores obtained by different parameters.

VII.1.3.1 Bank Level Performance

In general, the integrated performance of bank X has been better than bank Y's, mainly because of its far superior operational efficiency in terms of wage productivity and
A highly significant correlation between wage productivity and profitability is clearly indicated by the study. However, the operational efficiency of both the banks, in respect of 'cash management' and 'credit-deposit ratio' was poor and below the national average. If, therefore, these banks, in general, and bank Y, in particular, desire to improve their performance, they will have to streamline their cash management practices and ensure fuller utilisation of excess cash that remains idle either with the branches or in the pipelines.

As regards the National Priority Index, both the banks have failed to meet the national priority objectives to a large extent. In four out of five years, their national priority indices were below average. In terms of different parameters of national priority, bank Y's performances were above average and certainly better than bank X's. Despite these achievements, this bank failed to meet the stipulated 'targets' of priority sector and MFI advances in all the years, for which it was penalised through negative scoring. This caused reduction in its national priority indices.

Nonetheless, the performance of bank Y with respect to national priority objectives was marginally better than bank X, though it still remained below average except in one year (1978). Both the banks are, therefore, required not only to improve their national priority performance, but also strive hard to meet the stipulated targets of priority sector and MFI advances.
VII.1.3.2 **Branch Level Performance**

The integrated performance of different categories of branches under study were far better than their respective bank averages. It was possible mainly because of excessively high operational efficiency indices. The National Priority indices, however, remained fairly low.

Centre-wise, the integrated performances of urban and semi-urban branches were quite comparable, whereas the performances of rural branches were relatively poor. This was more pronounced in the case of bank Y. The rural branches secured lower IPI scores mainly (almost exclusively) because of their relatively poorer operational efficiency as compared to semi-urban and urban branches. The rural branches under reference are better advised to improve their operational efficiency, particularly in terms of their credit-deposit ratios and recovery of priority sector advances, where they normally lagged behind their urban and semi-urban counterparts.

**VII.2 IMPLICATIONS AND SUGGESTIONS**

Commercial banking is a multi-product industry, as it provides a variety of services. Its role in mobilising and channelling the nation's savings need not be over-emphasised. The avowed objectives of bringing the benefits of bank services to the door steps of the weaker sections of the society, so as to foster economic development with social justice, have been and would continue to be the basic foundation of the
banking policy in the country. Effective accomplishment of these objectives still remains a great challenge before the managements of commercial banks, particularly in the public sector. Periodical monitoring of the performance, both at the macro and the micro levels, which provides necessary feedback and triggers the corrective actions, is essential not only to ensure a steady progress towards the achievement of social objectives, but also to improve the operational efficiency and health of commercial banks.

The present work is a modest attempt towards this end. Keeping in view the broader policy objectives of commercial banking, we have deliberately used the concept of "organisational effectiveness" for evaluating the performance of commercial banks. The findings of the study have wide implications for the sample banks as well as the banking industry in general.

It has been amply brought out that the present system of ranking the banks on the basis of aggregate deposits fails to show their overall achievements. And, at the micro level, the existing system of performance budgeting has left much to be desired and cannot be objectively used for evaluation of branch level performance. Moreover, the techniques of inter-firm comparison, used in the earlier parts of this study, also fail to give an integrated picture of the total performance, besides being too detailed.
complicated and time-consuming. The solution to the problem lies in developing and using a Performance Evaluation Model which facilitates the computation of Integrated Performance Index based on all the important, and quantifiable, parameters of performance.

We feel that the model proposed in the present study for evaluation of performance of commercial banks and their branches is quite simple to understand and can be easily used by the policy formulators and the bank managements in India with advantage. It also has a built-in flexibility in the sense that, wherever required, suitable modifications in parameters (key result areas) and their weightage can be incorporated without damaging the basic structure of the model. As and when the quality and availability of data improve, some of the qualitative and organisational variables, such as customer service and balancing of books, etc., may also be added.

The present model has, in effect, used the bank averages for measuring the branch-level performance. It has been done mainly owing to the lack of reliability of the performance budgeting data, as it has been brought out in the study after subjecting these data to statistical tests. It is, however, advisable that the commercial banks must streamline their performance budgeting system and fix the performance targets in close consultation with the branch managers as well as in the light of internal and external constraints within which
the branch is operating. Once performance budgeting is perfected, the targets fixed for different parameters may be used for calculating the integrated performance indices for individual branches. Moreover, unique models may be used for evaluating the performance of branches providing 'specialised services' only, e.g., foreign exchange, large industrial advances, etc.

It is also suggested that the overall performance be evaluated once in a year and if need be the frequency could be increased where performance warranted close monitoring.

It is also pertinent to point out that the present study suffers from certain limitations. The evaluation of performance of the banks under study is at best illustrative, because the number of banks is limited to only two. In a few cases, the data were not available in desired form and quantity and, therefore, alternative sources of data were used. The time series data for the sample banks were derived from their annual reports of different years and the weakness of reports in terms of information does not need any elaboration. The data for the banking system were taken from RBI bulletins and its various publications. Not only did the data differ, in certain cases, from one report to another, but their presentation was also not uniform.

The evaluation of branch-level performance is restricted to only a small number of branches. Moreover, the study
simply attempted to find out, on an average, the comparative performance of these branches located in different centres (urban, semi-urban and rural) rather than that of individual branches in each centre. At best, therefore, it is a centre-wise evaluation of performance.

Lastly, no claim has been made that the model suggested for constructing the integrated performance index is a perfect one. The scope for refining the model is not denied. It is rather suggested that further researches may be conducted not only to test the present model in a larger number of banks and their branches, but also to perfect the technique of quantifying some of the qualitative parameters which are also equally important but could not be included in the present model.

Another variable, which has not been considered in the present study, relates to the allocation of H.O. and regional office costs to branches for which it provides specialised services. For example, the branches which extend big advances to large industries must bear the major portion of appraisal and loan department's costs. This indicates the need for detailed investigation into the cost analysis at the headquarter levels and determination of the basis for allocation of such costs to branches.

The branch profitability depends to a considerable extent on the transfer price, i.e., the rate of interest charged or allowed to the branch if the branch transfers its surplus
funds to or needs additional funds from the head office. The
determination of transfer price on scientific lines will
certainly motivate certain types of decisions at the branch
level, which are likely to have a direct bearing on its profi-
tability. Thus, transfer price mechanism for evaluation of branch
level performance is another area which needs further exploration.

In the present analysis, year-end data have been taken
for the purpose of performance evaluation. Some of the figures
may be highly inflated by the desperate action on the part of
branch managers to meet the targets at the fag end of the budget
period, as it often happens in the case of deposits. Similarly,
some of the figures, e.g., cash in hand, at a single point of time
might not be representative of the actual situation prevailing
throughout the year. It is, therefore, advisable to use the monthly
averages for the evaluation of performance of banks and their
branches for a given period. For further refinement of the model,
the availability of data in desired form and quantity should
not be a constraint, at least for the management of the bank.

In the ultimate analysis, however, the efficacy of
any model of performance measurement or organisation effec-
tiveness would depend not on its refinement alone but on the
quality of the top management of banks, which has a more
positive role to play in directing the growth-path of the
organisation, in evolving an appropriate planning and control
system, and in providing sound forward looking leadership for
effective accomplishment of declared objectives. We are, therefore,
tempted to conclude with the following quotations:

"Top managers must be change seekers. Their leadership role is to provide a climate for rapid improvement towards excellence. The success their business achieves in the future will be in geometric proportion to their understanding of, planning for, dedication to, personal involvement in, and self-motivation towards the implementation of purposeful change. For many companies this demands a reorientation in the thinking of senior executives. It means honest commitment to a new concept. Insincerity or lip service will soon destroy confidence."

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