CHAPTER – II
REVIEW OF LITERATURE

INTRODUCTION

Any research should start with a review of earlier studies in bringing out the uniqueness of the proposed study. An academic study on the marketing of banking services in India is important and pertinent in the context of the increasing role envisaged for commercial banks in restructuring of economy. So, an attempt is made in this section to present a review of the available studies on the development of banking in general and the characteristic features of the services rendered by Commercial Banks in particular.

In India, formal research on banking and the rating of its efficiency in related areas is of recent origin. The research studies conducted in the field of banking in India and abroad in the past related mostly to the institutional functional and developmental activities of banks.

The Banking commission (1972) undertook a comprehensive research study of the entire banking system of the country and came out with major policy level recommendations in 1972. It reviewed the operating methods, procedures and made recommendations for improving and modernizing operating methods and procedures, particularly of those related to customer service, credit procedures and internal systems. The various ways in which the banking system could assist economic development were also explored.
The Productivity, Efficiency and Profitability (PEP) committee on Banking (1977)² constituted to study the productivity, efficiency and profitability of commercial banks has used four criteria viz., productivity, social objectives spatial, sectoral-profitability and efficiency. Under each criterion, it used a set of indicators. It also examined a few other points like planning, budgeting, marketing, management information systems, annual accounts, audit systems and procedures. It analysed banking costs, profitability of operations, pricing of bank services, trends in earnings and expenditures. These study were experimental in nature and it categorically stated that the set of indicators used by its does not represent either the first or the least choice.

The Talwar Committee, appointed by Government of India under the Chairmanship of R.K. Talwar submitted a report in March 1977³. It pinpointed the areas in which the banks have to be strengthened and the areas in which services are to be rendered effectively.

Nedu (1977)⁴ studied customers’ perception of commercial bank services. The main findings are:

i. The Commercial Banks satisfy the older customers more than the younger ones.

ii. Older bank customers, as a group, are more aware of the existence of the various services provided by the banks than the young customers are.
iii. Commercial banks satisfy the female customers more than the male customers.

iv. College education or lack of it does not significantly affect the perception of bank customers.

v. Occupational membership (white or blue collar) and residential location do affect the perception of bank customers in varying degrees.

Karkal (1977) 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 on the organisation and functioning of banks and the techniques employed by them to achieve optimum efficiency.

Sterk (1978) studied customer relationship and optimal bank portfolio allocation. The study reveals how a banks’ loan-deposit relationship can be estimated by property aggregating individual customer data and how aggregate data can be used to identify and estimate the banks’ loan-deposit relationship.

Shetty (1978) 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 nationalization of banks. It was observed that no major structural change had occurred in the composition of deposits and the banks had failed to improve their credit-deposit ratio over the years. Obviously, rural areas were neglected in the opening of bank branches too.
The Committee on the functioning of Public Sector Banks (1978)\(^8\) appointed by the Reserve Bank of India in 1977 made a broad evaluation of the performance of public sector banks in the country covering the spheres of branch expansion, deposit mobilization, credit disbursement, priority sector lending, efficiency and management-employee relations; and made recommendations to ensure improvement in the efficiency of their opinions 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 from 1969 to 1977. It collected data from bank, bank staff, other financial institutions and commercial associations.

Agarwal (1979)\(^9\) in his book-Management of Nationalised Commercial Banks in India with Reference to their Social Obligations has assessed the performance of nationalized banks in discharging their social obligations. There being no absolute line of measurement in this regard, an effort has been made to evaluate the performance of the nationalized 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 performance, the line of assessment adopted was the combined average performance of all the nationalized banks.

Kulkarni (1979)\(^{10}\) stated that while considering bank’s costs and profits, social benefits arising out of banks’ operations cannot be ignored. He claimed that the profit maximization approach is out of place while referring to profitability of banks. He recognized that while fulfilling their social responsibility, banks should
try to make the developmental business as successful as possible, reduce costs, improve the banking system and increase the overall productivity.

Seshadri (1981)\textsuperscript{11} in the book- “Banks since Nationalization” has compared the achievements of the nationalized banks with those of private sector banks. The progress achieved by these banks in the spheres of expansion of branches, mobilization of deposits and their advances were then analysed with the secondary data available from various banks and the Reserve Bank of India.

Agarwal (1982)\textsuperscript{12} in his book – “Commercial Banking in India after Nationalisation-a case study of their policies and progress” analysed the performance of commercial banks in India after nationalization. It was neither an empirical study nor a study of a particular aspect of commercial banking. It was only a study of banking development in the light of nationalization. Annual reports of banks, periodical reports of the Reserve Bank of India and personal discussions with bank officials were the major sources relied in the study.

Nayan Kamal (1982)\textsuperscript{13} in his research study has made a comparison of the performance of individual nationalized 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 (1982)\textsuperscript{14} in his study evaluated the trends in Indian Banking after nationalization. He made an effort to ascertain how the banks were in a position to cater to the banking needs of the Indian masses. He suggested ways and means for further development of banking. The data for the study were collected from the
Reserve Bank of India and other agencies directly or indirectly engaged in the task of developing banking facilities in the country.

Yadav (1983)\textsuperscript{15} evaluated the working of the Syndicate Bank in the 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 the Syndicate Bank has been successful in the northern part of the country and how far it has been able to achieve the objectives of nationalization by accelerating banking facilities in the rural, remote and the neglected areas.

Angadi (1983)\textsuperscript{16} in his paper put forth a proposition that the 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 costs 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.

Hussain (1987)\textsuperscript{17} in his study about new roles of public sector commercial banks in India analyses the major problems faced by the public sector banks in India. As public sector institutions they are required to face new challenges.

The Department of Banking operations and Development a section of Reserve Bank of India (1988)\textsuperscript{18} in its conference paper observed that the rapid expansion of banking activities called for a phase of consolidation to improve the
quality of banks, their operational efficiency, productivity and customer care service. It noted that the poor quality of bank assets continues to be curse for concern in view of large-scale industrial sickness and wide spread defaults in repayment of bank dues.

Sathyamurthy (1988)\(^{19}\) pointed out how the Estimate Committee of the Eighth Lok Sabha has observed that social banking should not be viewed as different from normal commercial banking but as complementary and supplementary field. Banks must reconcile themselves to the fact that social banking continues to remain as their main responsibility and must strive to make it, not withstanding various constraints, a profitable proposition.

Chawla (1991)\(^{20}\) 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 report of banks and the Reserve Bank of India publications. The study covered a period of twenty years from 1969 to 1989.

Prabhu (1991)\(^{21}\) 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 organizational excellence through people.

The Reserve Bank of India Committee on Customer Service in Banks (1991)\(^{22}\) undertook a detailed customer survey covering different categories of
bank customers. The Committee has made ninety-seven wide-ranging recommendations to improve the customer service in banks.

Gulshan Satija (1999)\textsuperscript{23} in his article stated that the present era of globalisation, the marketing methodology in service sector includes product innovation, service delivery system, value added services, time scheduling of services, pricing, packaging, tailor made services, bank assurance, co-ordination of insurance with manufacturers, credit cards, hospitals and other services, internet/cyber marketing policies. Though these components are suggested for insurance service marketing the same elements will hold in banking services.

Md. Musharraf Hussain (2000)\textsuperscript{24} in his research on commercial bank employees revealed that

a) the public sector bank employees were in a better position in terms of their job satisfaction than the private sector bank employees; and the executives were more satisfied than the non-executives.

b) Private sector bank employees were dissatisfied with job security as compared to public sector bank employees. On the other hand, public sector bank employees were suffering form poor working conditions and absence of incentive bonus.

Rajender Singh (2001)\textsuperscript{25} in his article on “Beneficiaries awareness campaign” has analysed the pattern of recovery of rural loans and the need for having beneficiaries awareness campaigns in rural areas to create awareness about the importance of recovery and recycling of funds.
Datta (2001) Principal, Bankers Training College, RBI opined that means and ways to bring about improvement in profits and profitability would be the prime concern during the years to come as far as the banking industry is concerned. For, profits should increase for the industry’s sustained growth and development. So also, profitability of banking activities should improve against intense competition, fast catching up in the financial services market. Banks should continue to serve the weaker section in future. However, the social costs involved will have to be cross subsidized by resorting to appropriate pricing as far as commercial products and services offered are concerned. Banks would also need to bring about a sea change in their styles of functioning if profits and profitability are to be improved.

Manjula Bose (2001) 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 of the banking system that 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 was also conducted to know the changing character of commercial banking in India.

Khan M.Y. (2002) in his article ‘Banking Problems in India’ has analysed the rating of countries according to corruption, net profit and non-performing
assets ratios of various commercial banks. He has emphasized the need for
disclosure of various types of information to the shareholders.

Prahbad Sabrani (2003)²⁹ in his article ‘Universal Banking’ has defined the
concept of universal banking and the need for universal banking in the present
globalised environment. He has linked his analysis with asset-liquidity
management, risk management, computerization, etc.

Rashid Jilani (2003)³⁰ the chairman and managing director of the Punjab
National Bank says that above all, to increase the profitability, it is absolutely
necessary that the staff are fully involved. The management should share their
perceptions about future developments with the staff so that they are in a position
to understand the emerging challenges arising from liberalization and competition.
Although customer service committees have been set up at branch level, most of
these are not functioning effectively.

Chidambaram (2004)³¹ argues that the closure of bank branches may not be
acceptable on the following grounds:

i. The closure move is totally against one of the objectives of
nationalization.

ii. It deprives the poorest of the poor of institutional credit.

iii. It allows moneylenders and indigenous bankers to dominate still further
in rural credit.

iv. The rural poor may divert their savings towards quack investments.
v. The momentum gained by non-governmental agencies in sustainable rural development may get disturbed.

Karthikeyan (2004)\textsuperscript{32} in his article indicated that, the priority sector advances could be made viable and purpose oriented by adopting a planned strategy on,

i. Realistic service area credit planning.

ii. Adopting project approach in implementing the plans.

iii. Availing maximum refinance from NABARD and SIDBI

iv. Timely follow up and instituting appropriate action for recovery.

v. Invoking DICGC guarantee wherever possible.

Bhattacharya (2004)\textsuperscript{33} in his research article examined whether customer service in the banking industry was really deteriorating. He examined the issues using data from two field surveys, conducted by the National Institute of Bank Management in 1974 and 1984. Based on the study he concluded that an unqualified customer services have deteriorated in the post-nationalisation phase was empirically untenable.

Jagwant (2005)\textsuperscript{34} in his book “Indian Banking Industry: Growth and Trends in Productivity” examines the trends in productivity in public sector banks excluding the six banks nationalized in 1980. He had 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 the Indian Bank Association and Annual reports of the banks.

Chandrayya (2005)\(^{35}\) has undertaken a study structural change 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, organization 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.

Moin Qazi (2005)\(^{36}\) points out how the Narashiman committee had warned that the additional burden arising out of mass opening of rural branches would adversely affect the resilience and viability of banks to face unforeseen situations. What is needed to strike a reasonable balance between the imperative need to extend banking facilities to rural areas and the prudent desirability to sustain the viability of banks. Apart from deployment of credit, there should be supporting infrastructure facilities like marketing, guidance regarding proper cropping patterns, training programme for rural artisans and technological up gradation of equipments used in villages.

Rajendran (2006)\(^{37}\) in his comparative study of the public sector and private sector banks during the year 1990-91 has been three profitability ratios and six balance sheet ratios. He has selected the sample of eight scheduled private sector banks, three nationalized banks and the State Bank of India for his study.
Madhukar (2007)\textsuperscript{38} stated that the bank management in India, today are facing a two faced challenge to improve their profitability on one hand and to serve the public in new ways with greater efficiency and effectiveness on the other. In the noble task of fulfilling the socio-economic responsibilities, the commercial viability of banking should not be ignored. Hence profitability and social objectives are the two major considerations which a bank is now required to keep in mind.

Akhilesh and Pandey.S (2006)\textsuperscript{39} in their study, “A comparative study of organizational climate in two banks” have pointed out that nationalized bank has a better attitude profile over private sector bank. In their opinion, there is better recognition and rewards for performance in private sector banks. It appears that this relationship is the strength area of the private sector bank over the nationalized bank. The study further revealed that the private sector bank has a slight task oriented climate.

Deepti Bhatnagar (2006)\textsuperscript{40} in her research on factors influencing attitudes of bank employees towards computers (ATC), examines exposure, gender, use and organizational level as correlates of ATC.

Nagadevara (2007)\textsuperscript{41} on “Total Branch Automation”, stated that recent surveys have consistently brought out the training deficiency of banks when they go in for automation.

Rengarajan (2007)\textsuperscript{42} stressing the importance of banking service intermediation, identified four transformation processes.
i. “Liability – Asset transformation which include accepting deposits as a liability and converting them into assets such as loans;

ii. Size transformation, which include providing large loans on the basis of numerous small deposits;

iii. Maturity transformation, which include offering savers alternate forms of deposits according to their liquidity preferences while providing borrowers with loans of desired maturities and

iv. Risk transformation, which include disturbing risk, through diversification which substantially reduces risk for savers which would prevail while lending directly in the absence of financial transformation”.

Chawla (2008) 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 analyses were carried out with the help of different types of growth rates; indices of changes were also calculated with certain statistical tools like co-efficient of variation and rank correlation too were used in the study.

Giridhari (2008) in his paper has narrated the growth of private sector banks and public sector banks as a whole for a three-year period from 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, investments, income, expenditure, etc. Though the
study is empirical in nature, the individual performance of banks is outside the purview of the study.

Tarapore (2009)\textsuperscript{45} indicates that as a part of damage containment policy, weak banks need to undertake a critical analysis of the operations of their branches and those branches that are totally non-viable. Such selective closure is unlikely to affect the needs of customers, as in most cases other stronger banks would have branches in the proximity of the branches of weak banks.

Ram Mohan Rao (2009)\textsuperscript{46} R.N. in his article “Organisation change and development its relevance to banks in India” has analysed the present banking service policies and the rule of organizational development in banking services. He has underline the need for organizational development in banks.