CHAPTER SEVEN
SUMMARY, CONCLUSIONS AND SUGGESTIONS

In recent years, there has been a considerable widening and deepening of the Indian financial system, of which banking is a significant component. With greater liberalization, the financial system has come to play a much larger role in the allocation of resources than in the past and its role in future can be expected to much larger than at present. Given the significance of the Indian banking system in the allocation of resources, one cannot afford to underplay the importance of a strong and resilient banking system. The wind of Liberalization, Privatization and Globalization (LPG) has opened new vistas in the banking industry in the generation of intensely competitive environment. The players are competing like never before. Yesterdays stars are no longer stars, new stars are emerging on the scene. The banks are performing better than others to keep ahead in race. The information age environment requires new capabilities for competitive success. The ability of the organisation to mobilise and exploit its intangibles has become more decisive than investing in and managing of physical resources.

It is rightly said that anything which can be measured can be controlled. Measuring organisational performance has been an important area and it has undergone continuous development and modification. Since the inception of the concept, management experts as well as academicians have been trying to develop advanced method of measuring it.

Traditional financial ratios have worked as important tools of measuring organisational performance in the bygone years. It has, however been felt that the leading indicators of business performance cannot be found in financial data alone. The structural changes and emerging trends associated with the new open environment have rendered the traditional financial performance measures which concentrate only on financial performance (ignoring the non-financial aspect) ineffective. Managements have been trying to change their organisation's/institution’s performance measurement system to track non-financial measures in the process.
In the light of above developments and apparent challenges in the Indian banking industry, it is interesting to see how the banks have performed and what their parameters of the performance measurement are? True performance can be measured only by using financial and non-financial key performance indicators (KPIs) or key result indicators (KRIs). There is a need to examine whether the Indian banking sector is responding to these important developments in the area of performance measurement systems or not? The present study titled, “Performance Measurement Systems in Indian Banking Sector” is an attempt in this direction.

The present study examines the impact of economic liberalization on the performance of Indian banks. It also examine the existing performance measurement systems prevalent in the Indian banking sector and awareness of the banks regarding existing and new performance measurement systems based on both financial and non-financial measures (Balanced scorecard or Performance scorecard). The study attempts to find out the extent of usage of Balanced Scorecard in the Indian banking sector. The study evaluates the emphasis on new performance measurement systems focusing on financial measures on the performance of Indian banks in CAMEL framework. The study also provides suggestions for designing of a performance scorecard for the Indian banks so as to enable them to compete with other banks in the market in the present globalized environment.

To achieve the desired objectives both primary as well as secondary data has been used. To examine the impact of economic liberalization on the business performance of Indian banking sector, mainly secondary data has been gathered from various publications of RBI. For analysis of secondary data, the collected data has been classified bank group wise i.e. All Scheduled Banks, Public Sector Banks, Old Private Sector Banks, New Private Sector Banks and Foreign Banks. The business performance of the different bank groups has been measured on basis of five indicators such as Profitability Indicators, Productivity Indicators, Assets Quality Indicators, Prudential regulations and Technological Indicators.

To examine the awareness and usages of existing and new performance measurement systems in place in the Indian banking sector and also evaluate the present performance measurement systems in CAMEL framework, mainly primary data has been used and has been gathered through a structured questionnaire. For collection of primary data, the researcher interacted with top officials of the selected
bank including GM, Vice-President, Zonal Managers, Circle Heads, Regional
Managers, Principals of training colleges of different banks, Chief-Managers and
Managers etc. The questionnaire has been administered in such a manner that covers
the entire hierarchy of the banks i.e. top level management of the banks which are
responsible for formulating the bank’s mission, vision and strategies (i.e. CMD, MD,
Board Members, vice president, GM etc.), middle level management which are
responsible for communicating bank’s strategy down to operating people (i.e. Regional
/ Zonal/ Circle / Divisional managers, principal of training college etc. ) and covering
branch level management which are responsible for implementing the bank’s strategy
to achieve the bank’s mission and vision ( i.e. Chief Manager / Branch Manager
including officer’s rank people etc.).

For this purpose, a sample of six banks consisting of top three public sector
banks on the basis of size (assets) of each bank i.e. SBI and its associates SBOP, PNB
and Canara bank and top three private sector banks on the basis of size (assets) of each
bank i.e. ICICI bank, HDFC bank and AXIS bank has been taken. For the collection of
data, it was planned to give representation to entire state of Punjab covering all the
major districts and Chandigarh (UT) being capital and regional, zonal, training and
circle offices of all the selected banks. For collection of data, a sample of 200 bankers
selecting equal number (100 each) from both public sector and private sector banks has
been drawn. These Bankers hold senior management positions such as General
Manager, Vice President, Circle Officer, Zonal Manager, Deputy General Manager,
Senior Managers and Branch Manager in banks. The analysis of collected data has
been done by using simple frequencies, percentages, averages, Weighted Average
Scores (WAS), Mann-Whitney test (U-test), etc.

7.1 FINDINGS REGARDING IMPACT OF LIBERALIZATION
ON THE BUSINESS PERFORMANCE OF INDIAN
BANKING SECTOR

The financial sector reforms have brought tremendous changes in the banking
sector of our economy. A well sequenced and calibrated process of financial sector
reforms introduced in the early 1990s has resulted in a competitive and resilient
banking sector. It is pertinent to note that the changed financial scenario has provided
our banks an ample opportunity to expand globally through self-expansion, strategic alliances, etc.

The impact of reforms on the Indian banking sector is summarized as below:

- There has been an increase in the number of scheduled commercial banks (SCBs) in the post-nationalisation period but gradually the number has gone on declining and this has been due to the mergers and acquisitions taking place in the banking system. It is expected that in future a few mega banks will emerge and segment-wise banking function will take place.

- There has been not much increase in the number of branches after March 2001, and the population for a bank branch office has, in fact, remained almost the same (16 thousand per branch) during the period under study.

- Public sector banks still comprise the largest share of commercial banks (almost 80 per cent) even after the entry of various new private (domestic and foreign) banks in the Indian market. This is due to the reason that their network in the rural areas is greater as compared to private sector banks. Moreover, the presence of private sector banks is confined to the urban areas only.

- The total business (deposits plus credit) of the Indian banking industry has gone up by more than four times from Rs. 15,18,412 crore in March 2001 to Rs. 55,58,853 crore in March 2008. Out of total deposits, the growth of time deposits in absolute terms has been more than demand deposits. The high growth of time deposits over demand deposits is mainly due to higher interest rates being offered by the banks on such deposits as well as availability of tax benefits to certain deposit schemes.

- The banking sector in India has given a measured response to the reform process in terms of profitability of banks as almost all the commercial banks have been able to increase their volume of profit. The net profits as a percentage of total assets have increased from 0.47 per cent in 1997-98 to 0.99 per cent in 2007-08. During the year 2007-08, all the bank groups were able to increase their net profits to total assets ratio over the previous year, i.e., 2006-07. Competitive gains are also reflected in industry in terms of higher efficiency and technological innovations.
The interest income as a percentage of total assets of all scheduled commercial banks declined from 9.27 per cent in 1997-98 to 6.61 per cent in 2004-05. The reason for such a declining trend was the deregulation of interest rates which forced the banks to reduce their interest rates to be in the market. The interest expended as a percentage of total assets have also declined from 6.32 per cent in 1997-98 to 4.16 per cent in 2007-08. This is because of decrease in the prime lending rate (PLR) now called as base rate of the banks during the period of study.

The expenditure to assets ratio of all the scheduled commercial banks (SCBs) has declined from around 10 per cent in 1997-98 to around 7 per cent in 2006-07. This is because of decline in the non-interest operating expenses during the past few years due to improved technology, implementation of voluntary retirement scheme and ban on further recruitment of employees.

The net interest income (spread) of scheduled commercial banks (SCBs) as percentage of total assets declined marginally to 2.35 per cent in 2007-08 from 2.81 per cent in 2005-06. The decline in interest income and interest expended as a percentage of total assets has been due to decrease in prime lending rate (PLR) of banks during the period of study.

The cost income ratio (defined as the ratio of operating expenses to total income less interest expense) of Indian banks showed a declining trend during the post-reform period. The cost to income ratio of all the scheduled commercial banks (SCBs) has declined from 61.03 per cent to around 50 per cent and now the cost income ratio of Indian banks is an indicative benchmark and comparable internationally.

During the period of study, three bank groups, namely, scheduled commercial banks (SCBs), public sector banks (PSBs), and old private sector banks have shown a declining trend in operating expenses as percentage of total assets from 1997-98 to 2007-08. But the new private sector banks and foreign banks recorded their operating expenses as percentage of total assets more than the above three bank groups during the period concerned.

The business per employee of scheduled commercial banks has increased over three-fold from Rs. 66 lakhs to Rs. 217 lakhs over the period of study, whereas
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Profit per employee has increased more than four-fold from Rs. 40000 to Rs. 150000 during the same period. During the reform period, overall productivity of the banks has shown a remarkable improvement. Branch productivity also recorded a similar trend. Business per branch increased more than 2.5 times during the period of study. Overall, the figures suggest distinctive productivity improvements in the banking sector over the reform period. While it is difficult to pinpoint the relative mix of these factors in raising productivity, the bottom line is clear. Indian banks witnessed significant productivity improvements in post-reforms period.

- Fifteen years of financial sector reforms have strengthened the banks’ balance-sheet considerably. The gross non-performing loans (NPL) for banks in India have declined sharply from 15.7 per cent in 1996-97 to 2.25 per cent in 2007-08. This has been due to several channels of recovery available to the banks dealing with Non-performing assets (NPAs) like Debt Recovery Tribunal (DRT) and the SARFAESI Act which have been most effective in terms of amount recovered. The setting up of the Asset Reconstruction Company Limited (ARCIL) has also helped to a great extent in the recovery of dues.

- The overall capital position of scheduled commercial banks had witnessed a marked improvement during the reform period. Almost all the major scheduled commercial banks operating in India have been able to fulfil the Basel-I norms. In the year 2005, as many as 86 SCBs out of 88 in India maintained CRAR above 9 per cent by March 2005. All the banks are following the Basel-II norms of 12 per cent CRAR. In March 2008, average capital adequacy ratio of the scheduled commercial banks (SCBs) stood at a healthy level of 13.01 per cent in 2007-08 (as against the regulatory minimum of 12.00 per cent) despite sharp increase in the credit growth during the last three years.

- In recent years, all the commercial bank groups operating in India have been able to fulfil the priority sector norms (40 per cent) laid down by RBI. Even increased competition and opening up of the banking sector has not affected it at all.

- All public sector banks have migrated to a core banking solution (CBS) platform and are gradually moving from simple banking to multi-specialist banking (i.e.
Internet banking, phone banking, mobile banking, core banking solution (CBS, RTGS, ECS, EFT, etc.). On the technology front, they are catching up the private sector banks quickly.

* India enjoys one of the best regulation and supervisory systems for its banking sector amongst the emerging market economies. The commercial banking sector is tightly regulated and monitored by India's central monetary authority - Reserve Bank of India (RBI). The overseas exposure of Indian banks is quite limited and close supervision of the RBI has helped to avoid any major East Asian, Latin American or US kind of crisis.

It has been observed that the banking sector in India has provided a mixed response to the reforms initialed by RBI and the Govt. of India since 1991. The Indian banking system is growing in a robust manner. The sector has responded positively in the field of enhancing the role of market forces, measures of prudential regulations of accounting, income recognition, provisioning and exposure, introduction of CAMELS supervisory rating system, reduction of NPAs and the upgradation of technology. The financial sector reforms have brought the Indian financial system closer to the global standards. The Indian banking sector has still a long way to go to catch up with their counterparts.

7.2 FINDINGS REGARDING PERFORMANCE MEASUREMENT SYSTEM: AN OPINION SURVEY OF DIFFERENT BANKERS

* Both the financial and non-financial measures were considered important by public sector banks (97%) and private sector banks (99%) for measuring and managing their performance, but there is a need to strike a balance between financial and non-financial measures.

* Bankers from both public and private sector banks were found to be quite aware about various performance measurement systems based on financial as well as non-financial measures. The bankers from public sector banks were more aware about various performance measurement systems under financial measures as compared to private sector banks. However, under non-financial measures, respondent bankers from both the sectors were equally aware about
various performance measurement systems used by their banks for measuring their performance (WAS > 4.50).

Regarding other performance measurement systems under financial and non-financial measures, all the bankers were equally aware about the various performance measurement systems under financial and non-financial categories for measuring and managing their overall performance except CAMEL framework where bankers from public sector banks were only found to be aware (WAS 4.36).

- Bankers from both the public and private sector banks were of the opinion that their top management was able to align individual objectives with the organisational objectives to a large extent. Weighted average score in respect of public sector banks was 4.34, whereas in the case of private sector banks it was 4.24. The bankers’ opinion brings out that the managements of both the public and private sector banks tried to achieve goal congruence.

- The contribution of various intangible assets, such as customer service, customer relationship, customer loyalty, product innovation, technology, committed and trained staff, strong work culture and brand image were considered important by the banks from both the sectors for their value creation. Further, weighted average scores reflect that bankers from public sector banks have considered the contribution of these assets more important as compared to private sector banks except brand image. There is a significant difference among public and private sector banks with regard to importance of strong work culture (p-value 0.023 is significant at 5% level).

- Regarding the feedback taken from different stakeholders (such as customers, employees, management and other stakeholders) about these intangible assets, a vast majority of bankers were of the opinion that these banks regularly take feedback from them. As regards customers, private sector banks emphasized more on taking feedback from customers as compared to public sector banks as shown by their WAS (4.46). Regarding employees and other stakeholders, no significant variations were observed. Moreover, regarding various channels of getting the feedback about contribution of various intangible assets to the value creation for the banks, public sector banks relied more on informal channels.
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(76%), whereas private sector banks used both the formal and informal channels (77%) for getting such feedback.

- The bankers from both public and private sector banks were of the opinion that various perspectives, such as financial perspective (97.50%) and customer perspective (94.50%) have been more important followed by internal business process perspective (84.00%), learning and innovation perspective (83.50%), employee perspective (79.00%) and shareholder perspective (75.00%) while introducing performance measurement systems (PMS) in their banks.

  Broadly, the weighted average scores for public sector banks are on the higher side with regard to all the perspectives. This shows that bankers from public sector banks gave more importance to listed perspectives as compared to those from private sector banks. Among the selected public sector banks, bankers from Canara Bank assigned more importance to all the perspectives except financial perspective as compared to SBI. Regarding customer perspective, both Canara Bank and PNB accorded equal importance as shown by their weighted average scores (4.80 each). On the other hand, among selected private sector banks, bankers from ICICI Bank have given more importance to majority of the perspectives when compared with HDFC Bank and Axis Bank while introducing their performance measurement systems. Mann-Whitney U-test shows that there is a significant difference between public and private sector banks with respect to customer perspective, learning perspective and employee perspective. Regarding other perspectives, no significant difference was observed.

- As far as importance of various measures under financial perspective is concerned, as many as 91 per cent of the bankers from both public and private sector banks attached more importance to ROI and productivity measures followed by CAMEL framework (74.00%). Public sector banks considered all the measures under financial perspective as more important as compared to private sector banks particularly with reference to CAMEL framework. Mann-Whitney U-test also shows that there is a significant difference among public and private sector banks as far as importance of CAMEL framework is concerned.
The opinion of bankers regarding various indicators of employee productivity shows that all the bankers have considered these indicators as important, such as total income and net profit per employee (92.00% each), total business per employee (88.50%), deposit per employee (87.00%), advances per employee (81.00%) and total expenditure per employee (76.00%). Public sector banks gave more importance to all the measures of employee productivity as compared to private sector banks. Mann-Whitney U-test shows that there is a significant difference between public and private sector banks regarding indicators like total business per employee and net profit per employee.

In the context of branch productivity, all the bankers have considered all the indicators of branch productivity as important, such as deposit per branch and total business per branch (92.50% each), total income per branch and net profit per branch (92.00 % each), advances per branch (85.50%) and total expenditure per branch (80.50%) for measuring the overall productivity of the banks. Public sector banks provided more importance to various indicators of branch productivity as compared to private sector banks. Among selected public sector banks, Canara Bank accorded more importance to all the indicators of branch productivity as compared to SBI and PNB. On the other hand, among the selected private sector banks, ICICI Bank has considered all the indicators of branch productivity more important when compared with other selected private sector banks except advances per branch.

Mann-Whitney U-test shows that there is a significant difference between public and private sector banks regarding advances per branch and total business per branch. It is pertinent to note that public sector banks accorded more importance to various indicators of productivity whether employee productivity or branch productivity for measuring the performance of the banks under financial perspective as compared to private sector banks.

Customer perspective is one of the leading perspectives which are considered important by all the banks for measuring their performance based on non-financial measure. In the context of this perspective, the analysis of bankers’ opinion reveals that a vast majority of bankers have considered customer satisfaction level (97.00%), customer retention (96.00%), and market share
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(94.00%), know your customer (93.50%) and customer complaints and grievances (91.50%) as important measures of customer perspective. Similar trends have been observed in all the remaining measures such as market penetration (89.50%), staff speed and responsiveness towards customers (88.50%), staff availability for customers (88.00%), customer profitability and staff skill competence to handle customers, staff appearance and friendliness towards customers and number of new customer (87.00% each), cost of customer acquisition (84.50%), number of customer suggestions (82.00%), customer erosion rate (81.50%) and multiple delivery channels (81.00%).

There was a mixed response of bankers from both the public and private sector banks towards the importance of various measures of customer perspective. Regarding various measures like customer retention, market share, staff speed and responsiveness for customers, staff skill and competence to handle customers, and customer complaints and grievances, there is a significant difference between public and private sector banks as shown by Mann-Whitney U-test. For rest of the measures, no significant variations were observed.

In the context of internal business process perspective, the analysis of bankers’ opinion reveals that a large number of respondents have considered various measures, such as service time (96.50%), confidentiality of customer data and e-banking, viz. ATM, RTGS, ECS, EFT, etc.(94.50% each), response time (93.50%), core banking solution (92.00%), aggressive marketing (91.00%) and new and differentiated product introduction internal (90.50%) as important measures followed by mobile banking/tele-banking (87.50%) and corporate social responsibility (81.00%).

On the basis of weighted average scores, all the measures of internal business process perspective were considered most important by majority of the bankers. Among selected public sector banks, bankers from all the banks have accorded importance to various measures except PNB. On the other hand, among the selected private sector banks, bankers from ICICI Bank have rated maximum number of measures as compared to HDFC Bank and Axis Bank. Mann-Whitney U-test shows that there is no significant difference among the
perception of public and private sector banks regarding importance of all the measures listed under internal business process perspective.

- In the context of growth perspective, the analysis of bankers opinion reveals that vast majority of bankers have emphasized IT usage (94.50%), training and development programmes (92.00%), new products and services (90.00%), number and percentage of internet products (85.50%), number of branches offering single window service (87.00%) as important measures of learning and innovation perspective. Similar trends have also been observed for rest of the measures, such as development of critical skills (84.50%), intellectual capital formation (82.00%), strategic alliance and partnership (80.50%), number of internet customers (77.00%) and bank brand ambassador (75.50%).

There was a mixed response among the bankers from public and private sector banks regarding importance of these measures. Among the selected public sector banks, bankers from Canara Bank have accorded more importance to all the listed measures of learning and innovation perspective as compared to SBI and PNB. On the other hand, among the selected private sector banks, ICICI Bank has accorded more importance to majority of the measures as compared to Axis Bank and HDFC Bank except number and percentage of internet products and strategic alliance and partnership as shown by their weighted average scores. Mann-Whitney U-test shows that there is a significant difference among the perception of public and private sector banks regarding importance of training and development programme. Regarding the other measures, no significant difference was observed.

- In respect to employee perspective, the analysis of bankers’ opinion reveals that large number of bankers considered various measures as employee productivity (94.50%), value added per employee (90.50%) followed by promotion/award and special incentives (88.00%), educate and encourage the staff in the use of IT, employee satisfaction (87.00% each), employee turnover (86.50%), morale and prestige (82.50%), stress management, performance linked compensation and customers retention (82.00% each), and developed culture of innovation and customer orientation (81.00%) as important (WAS > 4.00).
There was a mixed response from bankers belonging to both the public and private sector banks towards the importance of various measures of employee perspective. Bank-wise analysis shows that different bank groups assigned importance to different measures. Among the selected public sector banks, the bankers from Canara Bank accorded greater significance to all the listed measures of employee perspective as compared to SBI and PNB. On the other hand, among selected private sector banks, there was a mixed response to different measures. It is further stated that none of the measures of employee perspective has been rated more important by the bankers from ICICI Bank. Mann-Whitney U-test shows that there is no significant difference among the perception of public and private sector banks regarding importance of all the listed measures of employee perspective.

In the context of shareholders perspective, the analysis of bankers’ opinion reveals that majority of the bankers have considered various measures such as earning per share (91.00%), return on investment (90.50%), marked price per share (89.50%), dividend per share (88.50%), price earning ratio (84.50%), return on equity and corporate governance (84.00% each) and book value per share (79.50%) as important measures (WAS > 4.00).

Among the selected public sector banks, the bankers from Canara Bank have rated all the measures of shareholders perspective more important as compared to SBI and PNB except earning per share and book value per share as shown by their weighted average scores. On the other hand, among the selected private sector banks, ICICI Bank has rated all the listed measures of shareholders perspective as more important as compared to Axis Bank and HDFC Bank. Mann-Whitney U-test with regard to all the measures of shareholders perspective shows that there is no significant difference among the perception of public and private sector bankers.

In this information age, intangible assets play a significant role. To reap the benefits of intangible assets, an organisation has to focus on non-financial measures while measuring, managing and evaluating its performance. To achieve this, organisations should implement performance scorecard which mainly tracks both financial and non-financial measures.
To identify the various kinds of problems faced by the bankers while implementing the performance scorecard or balanced scorecard, the analysis of bankers opinion shows that majority of the bankers have faced number of difficulties with respect to implementation of performance scorecard. The table shows that higher proportion of bankers from public sector banks were of the opinion that they have faced problems with respect to reluctance of management to rely on non-financial measures, lack of clarity arising from large number of measures within each perspective, lack of clarity arising from large number of perspectives and lack of employee and management support when compared with private sector banks.

On the other hand, a higher proportion of bankers from private sector banks were of the view that they have faced problems with respect to difficulty in assigning weights to measures within each perspective and difficulty in assigning weights to different perspectives when compared with the public sector banks. Further, difficulty in identification of measures for various perspectives, difficulty in quantifying measures for various perspectives and difficulty in establishing cause and effect relationship among different perspectives were the common problems faced by both the public and private sector banks while implementing performance scorecard.

In the context of relative importance of management motivation for emphasis on non-financial measures of performance measurement system, the analysis of opinion shows that all the bankers have emphasized on all motivation measures, such as to become a world class bank (93.00%) to facilitate the integration of business plans with financial plans (92.00%), retaining and attracting high value delighted customers (91.00%) and creating stakeholders value through concern, care and competence (81.50%) as important (WAS > 4.00).

There was a mixed response from bankers belonging to both the public and private sector banks towards the relative importance of management motivation for emphasis on non-financial measures. Among the selected public and private sector banks, there was also a mixed response to all management motivations. Mann-Whitney U-test for the selected banks shows that there is a
significant difference in the perception of bankers from both the public and private sector banks regarding relative importance of management motivation with respect to the integration of business plans with the financial plans. For rest of the measures of management motivations, no significant variations were observed.

- With regard to various benchmarks, the analysis shows that majority of the bankers have considered all the benchmarks used by their banks, such as comparison with banking industry/other financial players (89.00%) and comparison with internal benchmarks (83.00%). These have been most oftenly used benchmarks followed by comparison with rating agencies (71.00%) and comparison with global players (64.50%) to analyze their performance based on financial and non-financial measures of performance measurement system. Bank-wise analysis of both public and private sector banks with regard to various benchmarks reveals that private sector banks accorded greater importance to various benchmarks, such as comparison with internal benchmarks (4.57) comparison with banking industry/other financial players (4.42), comparison with rating agencies (3.92) and comparison with global players (3.79) as compared to public sector banks.

Among the selected public and private sector banks, there was a mixed response from the bankers. Mann-Whitney U-test with regard to various benchmarks shows that there is a significant difference among the perception of public and private sector bankers regarding benchmarks like comparison with global players. Regarding other benchmarks, no significant variations were observed.

- In regard to factors affecting Performance Measurement System, the analysis of bankers’ opinion shows that majority of the bankers have considered all the factors as important. However, technology (94.00%), and competition (92.00%) have appeared as most important factors followed by banking liberalization (81.50%), economic growth (81.00%), globalization (76.50%) and privatization (76.00%) affecting the performance measurement system.

There was a mixed response among public and private sector banks regarding importance of various factors affecting Performance Measurement
System. Among the selected public sector bank, the bankers from SBI accorded greater significance to all the listed factors as compared to those from Canara Bank and PNB. Similarly, among the selected private sector banks, ICICI Bank gave more importance to all the factors as compared to Axis Bank and HDFC Bank. Mann-Whitney U-test with respect to various factors affecting performance measurement system shows that there is a significant difference among the perception of public and private sector bankers regarding globalization. However, for rest of the factors, no significant difference was observed.

To evaluate the satisfaction level of different bankers regarding the present performance measurement system, the analysis of response data shows that majority of the bankers (60.50%) were ‘satisfied’ regarding the present performance measurement system followed by their banks. However, 35.50 per cent of the bankers were found to be neutral about the present performance measurement system used by their banks. The weighted average score (3.76) shows that bankers are reasonably satisfied with the present performance measurement system.

Among the selected public sector banks, bankers from PNB and Canara Bank were equally satisfied (3.77 each) followed by SBI (3.57). On the other hand, among the selected private sector banks, bankers from HDFC Bank were found highly satisfied (3.94) followed by ICICI Bank (3.83) and Axis Bank (3.70). Mann-Whitney U-test with respect to satisfaction level of present performance measurement system shows that there is no significant difference among the perception of bankers from both the public and private sector banks.

7.3 FINDINGS REGARDING PERFORMANCE MEASUREMENT SYSTEM IN INDIAN BANKING SECTOR IN CAMEL FRAMEWORK

CAMEL framework is an important performance measurement system based on different ratios used to find out ranking of the banks. CAMEL Model involves computation of various ratios under Capital Adequacy Assets Quality, Management Efficiency, Earning Quality and Liquidity of the banks. Different banks used different
ratios (relationship) for each variable of CAMEL Model so as to find out ranking of various banks. CAMEL Model is basically a ratio based Performance Measurement system based on financial measures for measuring the performance of the banks.

- In the context of Capital Adequacy, the analysis shows that all the bankers considered the various ratios under capital adequacy as important, such as Capital Adequacy (96.00%) as the most important ratio followed by Debt-Equity ratio (82.00%), General Securities to Total Investments (76.00%) and Advances to Total Assets (75.00%). An overview of the weighted average scores as shown in the analysis reveals that private sector banks accorded more importance to all the listed ratios (measures) under Capital Adequacy as compared to bankers from public sector banks except capital adequacy ratio. It means that public sector banks accorded more importance to capital adequacy ratio which is the premier ratio of measures of Capital Adequacy of CAMEL framework. Among the selected public sector banks, bankers' from Canara Bank assigned greater significance to all the ratios as compared to SBI and PNB. Similarly, among the selected private sector banks, bankers form HDFC Bank provided more importance to ratios like capital adequacy, debt-equity and general securities to total investments followed by the ICICI Bank which accorded more importance to advances to total assets ratio under capital adequacy measure of CAMEL Model. Mann-Whitney U-test with respect to each ratio of capital adequacy shows that there is a significant difference among public and private sector banks with regard to debt-equity ratio and general securities to total investments.

- The analysis brings out that all the bankers considered various ratios under assets quality, such as Gross NPAs to Net Advances (96.00%) and Net NPAs to Net Advances (92.50%) as the most important ratios followed by Percentage change in net NPAs (89.00%), Net NPAs to Total Assets (86.50%), and Total investment to Total assets (80.50%). It reveals that public sector banks accorded more importance to all these ratios of assets quality as compared to the bankers from private sector banks except Total Investment to Total Assets as shown by their respective weighted average scores. Mann-Whitney U-test with respect to various ratios under assets quality shows that there is a significant difference among public and private sector banks with respect to ratios, such as Gross
NPAs to Net Advances and Net NPAs to Net Advances. For rest of the ratios of assets quality, no significant differences were observed.

In context to management efficiency, the opinion of bankers shows that majority of them considered all the ratios important. However, such as Total Advances to Total Deposits (93.00%) and Business Per Employee (88.50%) have appeared as the most important ratios followed by Profit Per Employee (87.00%) and Return on Net Worth (86.50%). The analysis reveals that public sector banks gave more importance to various ratios of management efficiency as compared to private sector banks. Mann-Whitney U-test with respect to all the listed ratios of management efficiency shows that there is a significant difference among the public and private sector banks as far as ratio like business per employee is concerned. Regarding other measures (ratios), no significant differences were observed.

With respect to earning quality, the opinion shows that all the bankers have considered all the ratios of earning quality as important, such as Operating Profits to Average Working Funds, and Interest Income to Total Income (87.50% each) followed by Non-interest Income to Total Income (87.00%), Spread (84.50%) and Net Profit to Average Assets (83.00%). The analysis reveals that weighted average scores of public sector banks were on the higher side with reference to all the ratios as compared to the private sector banks. There was a mixed response among the selected public and private sector banks regarding importance of various measures of earning quality. Mann-Whitney U-test with respect to all the listed ratios of earning quality shows that there is a significant difference among public and private sector banks as regards ratios like spread, net profit to average assets and non-interest income to total income. However, for rest of the measures (ratios), no significant difference was observed.

Regarding liquidity, all the ratios of liquidity as a measure of CAMEL framework have been considered important by all the bankers. Liquid Asset to Total Assets (90.50%) and Liquid Assets to Total Deposits (83.50%) have been considered most important ratios followed by Liquid Assets to Demand...
Deposits (81.50%), Approved Securities to Total Assets (75.50%) and General Securities to Total Assets (72.00%).

There was a mixed response among public and private sector banks regarding various ratios of liquidity. Among the selected public sector banks, bankers from Canara Bank accorded more importance to all the listed ratios as compared to SBI and PNB. Similarly, among the selected private sector banks, bankers from ICICI Bank accorded more importance to various ratios as compared to Axis Bank and HDFC Bank as shown by their respective weighted average scores. Mann-Whitney U-test with respect to all the listed ratios of liquidity shows that there is a significant difference among public and private sector banks as far as measures like liquid assets to total assets and liquid assets to demand deposits are concerned. However, no significant variations were observed in other ratios.

7.4 CONCLUSION

There is a general impression that private sector banks are superior to public sector banks in many ways especially when it comes to performance of these banks. However, it is quite interesting to note that in the post-liberalization period, the public sector banks have exhibited an excellent growth in terms of profitability, productivity, assets quality, technology upgradation and even prudential norms like CRR, structure of interest rates including deregulation of interest rates, priority sector lending etc. It has been observed that due to liberalization in the banking sector, public sector banks have undergone metamorphosis changes not only in financial perspectives, but also in non-financial perspectives particularly customer perspective, learning and innovation, technology and employee perspective. Public sector banks are manoeuvring to excel the their private sector banks with respect to customer service, customer satisfaction, internal processes and procedures, learning and innovation, technology and even employee perspective including training and development, satisfaction, loyalty and commitment of employees etc. The public sector banks grip on Indian banking scene has got strengthened with liberalization of banking industry.

No doubt, the banks from both the sectors are not only aware about contemporary Performance Measurement System based on financial and non-financial measures (BSC), but also equally know the extent of usage of Balance Scorecard as a
performance measurement and management tool. But to understand the intricacies associated with the problems of implementation of BSC as a performance measurement tool, majority of the bankers were found in a fix, and a gap between the awareness level and implementation part was apparent. As far as implementation of BSC is concerned, a good number of bankers were found blank about the various problems associated with it. No doubt, in this competitive era, awareness level of bankers regarding various perspectives and increased number of measures under each perspective have increased manifold. The benefits of contemporary Performance Measurement System like BSC can only be availed by taking remedial measures regarding difficulty in assigning weightage to different perspective, assigning weightage to different measures under each perspective, difficulty in establishing cause and effect relationship among these perspectives, lack of employee and management support and reluctance of management to rely on non-financial measures. These issues were found to be most critical in the implementation of balance scorecard as a performance measurement and management tool in the Indian banking sector.

7.5 SUGGESTIONS

The study elaborated number of issues concerning various performance measurement systems applied by the banks for measuring and managing their performance. On the basis of the findings and conclusions, the following suggestions emerged from the present study.

- The study brings out that though the bankers were aware about contemporary Performance Measurement System like balanced scorecard based on financial and non-financial measures, but while introducing and implementing it, the banks faced a number of problems. This shows that as far as intricacies associated with the problems of implementation of BSC as a performance measurement tool are concerned, majority of the bankers were found in a fix though they said that they were aware about Performance Measurement System based on financial and non-financial measures (BSC). Keeping in view the various benefits of the balanced scorecard, it is suggested that it is more of a necessity than a luxury for organisations operating in the present contemporary business environment. As far as problems associated with the implementation of BSC as a performance measurement and management tool are concerned, majority of the bankers were found to have no knowledge about such problems.
In order to get the full advantage of contemporary Performance Measurement System like BSC, banks should take remedial measures regarding difficulty in assigning weights to different perspectives, assigning weights to different measures under each perspective, difficulty in establishing cause and effect relationship among these perspectives, lack of employee and management support, and reluctance of management to rely on non-financial measures. These issues were found to be most critical in the implementation of balanced scorecard as a performance measurement and management tool. So, it is suggested that the banks should not only make their managers aware about the balanced scorecard, but the bankers must be trained to understand the BSC in a wider perspective so as to reap its benefits as a performance measurement and management tool in the Indian banking sector.

- The study shows that both the public and private sector banks accorded more importance to various perspectives such as Financial Perspective, Customers’ Perspective, Internal Business Process Perspective, Learning and Innovation perspective, Employees’ Perspective and Shareholders’ Perspective while introducing performance measurement system. The result indicates that weighted average scores of public sector bankers were on the higher side with regard to all the perspectives. It means the public sector banks gave more significance to these listed perspectives as compared to private sector banks. In this regard, public sector banks were giving tough competition to the private sector banks. Therefore, it is suggested that private sector banks should give more significance to all the perspectives (financial and non-financial) while introducing performance measurement system for measuring and managing their performance. Moreover, with the entry of foreign banks, competition among various bankers will become quite tough.

- CAMEL Model is a ratio based performance measurement system for ranking/rating performance of the banks. Regarding awareness and application of CAMEL framework, it is observed that public sector banks gave more significance to CAMEL framework as compared to private sector banks. An overview of all the measures of CAMEL model such as Capital Adequacy, Assets Quality, Management Efficiency, Earning Quality and Liquidity as well as various ratios under these measures reveals that public sector banks provided greater significance to these measures. The survey results when compared with the actual overall composite ranking of both public and private sector banks,
much compatibility has been observed in the study about the overall composite ranking of the banks. Therefore, it is suggested that private sector banks should focus more on CAMEL framework as a performance measurement system under financial measures. Under Assets Quality measures of CAMEL Model, various ratios like Gross NPAs and Net NPAs as a percentage of Total Assets and Total Advances shows that the scores of public sector banks were on the higher side. The same result is also observed during the study of the Impact of liberalization on the performance of Indian banking sector. The study reveals that during the period under study, public sector banks’ NPAs declined significantly whereas, the NPAs of private sector banks are on the increase. Therefore, it is suggested that private sector banks should focus more on the quality of advances/assets i.e the increasing level of NPAs particularly after 2005-06. Similarly, various ratios as a measure of Management Efficiency of CAMEL framework such as Total Advances to Total Deposits, Return on Net worth, Business per Employee, Profit per Employee, the bankers from public sector accorded more importance these ratios as compared to private sector banks. So to improve the efficient management of the banks, it is suggested that private sector banks should also provide more significance to various ratios of management efficiency as a measure of CAMEL framework. The Earning Quality of the banks as a measure of CAMEL framework is indicated by various ratios such as Operating Profits to Average working Funds, Spread, Net Profit to Average Assets, Interest Income to Total Income and Non-interest Income to Total Income. The analysis reveals that public sector banks assigned more importance to these ratios as compared to private sector banks. In order to improve the earning quality of the banks, it is suggested that private sector banks should need to lay more emphasis on these ratios.

There has been a great surge in efficient customer services. The banks from both the sectors should focus more and more on customer service because a highly satisfied and delighted customer is a vital non-financial asset for the banks particularly in the emerging competitive environment. Moreover, with a little or no distinction in product offerings, it is the speed of rendering services that makes a distinction. Today, prompt service is equated with quality service and time is a major factor which affects the quality of customer service viz-a-viz reputation of the bank. Customer perspective is one of the major perspectives of performance or balanced scorecard. Customer being at the top
of the stakeholders list, should be handled with utmost care and concern. The study brings out that public sector banks were ahead of the private sector banks regarding various listed measures of customer perspective. Regarding various listed measures of customer perspective, weighted average scores of public sector banks for majority of the measures were on the higher side as compared to private sector banks. The results reveal that private sector banks were lagging behind public sector banks. Therefore, private sector banks should concentrate on giving more importance to measures like customer satisfaction level, customer retention, market share, market penetration, staff speed and responsiveness for customer, staff skill and competence to handle customer, and customer complaints and grievances, multiple delivery channels and customer erosion rate to regain its earlier position.

- The banking industry in India has undergone radical changes due to liberalization and globalization measures undertaken since 1991. Employee productivity and branch productivity has increased manifolds as shown by the results of the study. Regarding various measures of employee productivity (per employee) and branch productivity (per branch), private sector banks need to pay more attention on various indicators like total business per employee, net profit per employee, advances per branch and total business per branch. Moreover, in order to increase employee productivity, they should focus their attention on the welfare of employees to attract loyalty, commitment and satisfaction. Ultimately, employee efficiency results in generating more business for the banks.

- Training and development of an employee is an integral part of learning and innovation (growth) perspective. Both the Public and private sector banks are competing with each other with regard to various measures of growth like technology upgradation, manpower skill development and business strategy. Private sector banks should conduct various training and development programmes to enhance the skill of their employee as well as their welfare.

- It has been observed that the banking sector in India has provided a mixed response to the reforms initiated by RBI and the Govt. of India since 1991. The Indian banking system is growing in a robust manner. The sector has responded positively in the field of profitability, productivity, assets quality i.e. reduction of NPAs, enhancing the role of market forces, norms of prudential regulations of accounting, income recognition, provisioning and exposure, introduction of CAMELS supervisory rating system, and the upgradation of technology. The
financial sector reforms have brought the Indian financial system closer to the
global standards. The Indian banking sector has still a long way to go to catch
up with their counterparts. The enhanced role of the banking sector in Indian
economy, the increasing levels of deregulation and the increasing levels of
competition have placed numerous demands on banks. It is suggested that for
operating in this demanding environment, banks should be prepared to face
various challenges in future like customer service, technology, Basel-II
implementations, improving risk management systems, implementation of new
accounting standards, supervision of financial conglomerates, consolidation
and universalisation know your customer (KYC) guidelines, corporate
governance, transparency and disclosures, and penetration in the rural areas
(Financial inclusion).

- In the present competitive era, number of factors affect the performance of the
  banks viz-a–viz their performance measurement system. These factors include
  Technology, Competition, Banking Liberalization, Privatization, Globalization,
  Economic Growth and Banking policies of the RBI, etc. These listed factors
  affect the performance of the banks in one way or the other. The survey result
  shows that public sector banks considered factors like Technology, Competition,
  and Banking Liberalization as more important. On the other hand private sector banks accorded more importance to the factors like Privatization,
  Globalization, and Economic Growth which affects their performance
  measurement system. Therefore, it is suggested that private sector banks should
give greater significance to factors like Technology, Competition and Banking
  Liberalization whereas public sector banks should also give more significance
to factors like Privatization, Globalization and Economic Growth to improve
  their performance.

- Regarding relative importance of management motivation for emphasis on non-
  financial measures, private sector banks should facilitate the integration of
  business plans with financial plans so as to achieve the desired goals for the
  banks. In this competitive and globalized era, both the public and private sector
  banks should lay more emphasis on various management motivations like
  creating stakeholders’ value through concern, care and competence; retaining
  and attracting high value customers; and to become a world class bank.

- While assessing their performance and comparing it with their competitors in
  India and at global level, banks should use more and more benchmarks in order
to have a comparison with global players as well as the rating agencies. Public
sector banks should lay more emphasis on these benchmarks as compared to the private sector banks so as to grab the top position in the Indian banking sector. Moreover, these benchmarks motivate the bankers how to compete with their peers.

- As both the public and private sector banks lay emphasis on financial and non-financial measures while measuring and managing their performance, they should realise the importance of striking a balance (assigning weights) between financial and non-financial measures.

- There is a significant difference in the perception of bankers from both the sectors with regard to contribution of various intangible assets, like strong work culture and brand image in the value creation. Thus, the banks should improve their work culture by changing the attitude of the employees toward work. In this globalised era, public sector banks should be more concerned about enhancing the brand image or brand value by way of providing efficient customer service to become the best service provider in the world.

- Regarding various channels of getting feedback from different stakeholders about the contribution of various intangibles, public sector banks should utilize both the formal and informal channels to get proper feedback which would result in improving their performance.

The above mentioned suggestions are based on conclusions drawn from the study which quite obviously had a limitation of its scope. These emerging conclusions and suggestions are sure to help the Indian banking sector to follow contemporary performance measurement systems which enable them to compete with their counterpart in the present globalized environment.

### 7.6 Scope for Future Research

The present study is an attempt to analyse the existing Performance Measurement Systems, the awareness level and extent of usage of Balanced Scorecard as a performance measurement system in Indian banking. It also evaluates how far the Indian banks have emphasized on new performance measurement system which focuses on financial measures on the performance in CAMEL framework. There still remains a viable prospect for future research.

- Further research could be undertaken to examine what factors/forces can influence the choice of performance measures (financial as well as non-
financial) viz-a-viz performance measurement systems while measuring and managing the performance of the banks.

- As the present study is confined to the Indian banking sector only, it can also be undertaken to compare the Performance Measurement System of Indian banks viz-a-viz foreign banks so that resultant comparison should indicate the best banks in the globalised competitive environment.

- Another area for further research could be to compare the Performance Measurement System of developing countries like India viz-a-viz the banks of developed countries.

- The present study assessed the awareness level, opinion of the bank management regarding existing and new performance measurement system and extent of usage of balanced scorecard as Performance Measurement System in the state of Punjab only. So this could be studied taking the sample from other states of India also.