Chapter - VII

Conclusion
The concept of the 'welfare state', though has modern connotation, is viewed by states as a 'means' rather than an 'end' in itself. The 'welfare state' has come to stay with its lofty ideals of securing better standards of living, full employment and improved social security measures for human happiness. All types of Governments, irrespective of their ideological affiliations, aim at promoting the welfare of the people, the ultimate objective, however, being to ensure the greatest happiness of the greatest number. Banks have been instruments of the State in implementing schemes aimed at bettering the lives of the people. Among the developmental activities in India in the last 50 years, one of the more remarkable phenomenon has been the transformation of the banking sector. It has become the catalyst for the economic development of the State. The Governments of modern states give more attention to banks, primarily because they are the primary conduits of finance through which the national resources are judiciously distributed.

In India, the business of banking and credit was practised even during very early times and it fulfilled all the requirements of the people of those days. But the modern type of banking, however, was developed by the Agency Houscs of Calcutta and Bombay after the establishment of rule by the East India Company in the 18th and 19th centuries. The Government of Bengal took an initiative and the first presidency bank, viz., the Bank of Calcutta (latter called the Bank of Bengal) was setup in 1806 and the Bank of Bombay in 1840 and the Bank of Madras in 1843. However, in 1899, the
Government proposed to amalgamate these three Banks into one so that it could also function as a Central Bank; but the Presidency Banks did not favour the idea. However, the conditions obtaining during World War-I (1914-18) emphasized the need for a uniformed banking institution and as a result of which the Imperial Bank was set up on 27th January, 1921. The Imperial Bank, till the establishment of the Reserve Bank of India in 1935, functioned as an interim Central Bank of the country. It combined the functions of both a Commercial Bank and Central Bank. The Central Banking function of the Bank gave the Bank an undue advantage in the money market and hence an increased trend in the accumulation of deposits and deployment of credit. Even though, the total deposits and advances declined to Rs. 78.72 crores and Rs. 22.96 crores respectively in 1936 from Rs. 82.71 crores and Rs. 50.46 crores in 1921. But, later, it increased to Rs. 219.17 crores and Rs. 133.37 crores respectively in 1954. But, many complaints were received against Imperial Bank of India by the Bombay Provincial Banking Enquiry Committee such as neglect of local investment, concentration of resources at the local head office, failure to provide industrial finance, exploitation of seasonal variation in the rates of interest to its advantage, preferential treatment to European customers and the like. Therefore, the All India Rural Credit Survey Committee in its Report Published in 1954, recommended inter alia, amalgamation of Imperial Bank of India and ten other banks into a newly established bank called the 'State Bank of India'. The Government of India accepted the recommendations of
the Committee and introduced the State Bank of India Bill in Lok Sabha on 16th April, 1955 and it was passed by the Parliament and got the President’s assent on 8th May, 1955. The Act came into force on 1st July 1955 and the Imperial Bank was transferred into State Bank of India. However, after some time, the State Bank submitted a proposal to the State-associated banks for making them as subsidiary banks. Most of the banks agreed to it and therefore, the State Bank of India (Subsidiary Banks) Act, 1959 was passed and it received the assent of the President on 10th September, 1959. Accordingly, 8 State-associated banks were taken over by the State Bank of India as its subsidiaries whose percentage share of deposits and advances to total Scheduled Commercial Bank accounted for 10.0 per cent and 7.3 per cent respectively in 1960. During 60’s the performance of State Bank and its subsidiaries was found to be very satisfactory as, at the end of 1968 the percentage share of branches, deposits and advances of State Bank and its subsidiaries in total Scheduled Commercial Bank accounted for 30.8 per cent, 27.0 per cent and 29.4 per cent respectively.

Later, the Government announced the policy of Social Control of Banks in Parliament in December, 1964 and the Banking Legislation Act amending the Banking Regulation Act came into force on 1st February, 1969 to keep an open mind and undertook to examine all aspects pertaining to the banks. The basic objective of ‘Social Control Policy’ was to ensure in the immediate future, an equitable and purposeful distribution of credit, within the available resources, keeping in view the relative priorities of developmental needs.
Realising the urgent need for nationalization, later, on 19<sup>th</sup> July, 1969, the then Prime Minister Late Indira Gandhi announced the nationalisation of fourteen major Commercial Banks. The main objectives of nationalisation are: (i) removal of control by a few, (ii) provision of adequate credit for agriculture and small-scale industry and exports, (iii) giving of a professional bent to management, (iv) encouragement of new classes of entrepreneurs, and (v) the provision of adequate training to the bank staff. At the end of 1969, 83.3 per cent of branches, 93.0 per cent of deposits, 93.7 per cent of advances were shared by the public sector banks; of which, 52.2 per cent, 63.0 per cent and 60.7 per cent of branches, deposits and advances respectively were shared by the fourteen nationalized banks. Thereafter, on 15<sup>th</sup> April, 1980, the Government announced the nationalisation of six more banks. At the end of 1980 in all the Public Sector Banks were 28 and the percentage share of branches, deposits and advances in total accounted for 67.4 per cent, 94.2 per cent and 94.4 per cent respectively (excluding Regional Rural Banks). The commercial banks, particularly the public sector banks are playing a crucial role in mobilizing the resources in the form of deposits and lending them as advances to the needy and investors by the expansion of bank branches. After nationalisation of major commercial banks, the public sector banks have planned their branch expansion programme in such a manner as to provide a well-sponsored infrastructure of commercial bank credit by mobilizing resources in the economy. To study how far the branch expansion programme has led to the increase of deposit mobilisation and deployment of credit, the analysis has been divided into two
phases; from 1970 to 1980—the first phase and from 1981 to 2001—the second phase as total number of public sector banks were 22 during the period 1969 to 1980 and were 28 since 1980.

The average and compound growth rate of all commercial banks in India accounted for 10.5 per cent and 12.0 per cent; whereas, it was 11.0 per cent and 11.2 per cent, and 8.4 per cent and 8.9 per cent in the case of public and private sector banks respectively in the first phase. In the second phase, the average and compound growth rate of commercial banks in India accounted for 2.7 per cent and 2.5 per cent respectively; whereas, it was 2.9 per cent and 2.8 per cent, and 1.0 per cent and 0.5 per cent in the case of public and private sector banks. Within the public sector banks, the average and compound growth rates of State Bank of India and its subsidiaries accounted for 10.0 per cent and 10.5 per cent respectively in the first phase and 2.5 per cent and 2.3 per cent in the second phase; whereas, it was 11.6 per cent and 11.7 per cent in the first phase; and 3.1 per cent and 3.0 per cent in the second phase in the case of nationalised banks.

The indices of bank branches, deposits and credit deployed by all banks in both the phases indicated a fairly close association among them. An increase of 2.9 times of bank branches had led to an increase of 14.5 times and 20.4 times of deposits and credit of all commercial banks in India during the first phase; whereas, an increase of 1.7 times of bank branches had led to the increase of 19.1 times and 20.8 times of deposits and credit in the second phase. In the case of public and private sector banks, an increase of
3.1 and 2.1 times of bank branches had led to the increase of 13.4 times and 40.4 times, and 21.5 times and 3.4 times of deposits and credit in the first phase; whereas, an increase of 1.8 times and 1.2 times of bank branches had led to the increase of 18.2 times and 28.1 times, and 18.0 times and 251.0 times of deposits and credit in the second phase. Within the public sector, an increase of 2.8 times and 3.3 times of bank branches of State Bank of India and its subsidiaries; and nationalised banks had led to an increase of 22.4 times and 11.1 times; and 34.9 times and 17.4 times of deposits and credit respectively in the first phase; whereas, an increase of 1.7 times and 1.9 times of bank branches of State Bank of India and its subsidiaries; and nationalised banks had led to an increase of 21.3 times and 17.0 times; and 19.6 times and 17.1 times of deposits and credit in the second phase. Which is why in all groups the linear growth rate curve of bank branches lies below to the linear growth rate curve of deposits and credit in both the phases. And at the same time, even the linear growth rate curve of credit lies above to the linear growth rate curve of deposits in the case of overall India in both phases; whereas, it lies above to the linear growth rate curve of deposits in the case of the public sector banks in the first phase and private sector banks in the second phase. Within the public sector banks, the linear growth rate curve of credit lies above to the linear growth rate curve of deposits in the first phase and lies below in the second phase in the case of State Bank of India and its subsidiaries and lies above in both the phases in the case of the nationalised banks. The co-efficient of correlation between
the indices of bank branches and deposits, deposits and credit, and bank branches and credit is 0.9 in the first phase and 0.8 (except in case of private sector banks) in the second phase in the case of all groups of banks and the total commercial banks in India (except in the case of branches and credit for total in the second phase). Hence, the co-efficient of correlation is significant as the calculated ‘t’ value is higher, which accounts for 6.193 for the first phase and 7.799 for the second phase than the tabular ‘t’ value both at 0.05 per cent (3.250 for first phase and 2.861 for second phase) and 0.01 per cent (2.821 for the first phase and 2.539 for second phase).

In a service industry like banking, man-power plays a pivotal role in the growth of business as well as in building a good public image of the branches of the banks. The same man-power can also be instrumental in losing the business and in getting a bad name from public angle for bad services rendered in some of the branches of the banks. Today, there are many banks in the country having a total network of about 53,152 branches having with them 8,48,262 lakhs of human resources (bank managers, officers, clerks and the sub-staff) at the end of 2001.

With the available data some staff and branch ratios have been taken into consideration to assess the productivity of banks in India. The productivity ratios like per branch and per employee deposits, advances, advances to the priority sectors comprising agriculture, small-scale industries and other priority sectors, income, expenditure, profits, spread, burden and working fund. The indices of bank branches and total number of employees
indicate an increase of 3.1 times and 1.8 times respectively of bank branches had led to an increase of 3.2 times and 1.4 times of employees in the first and the second phases. Which is why, the linear growth curve of employees lies above the linear growth curve of total branches in the first phase and slightly lies below it in the second phase. Hence, these two variables are positively correlated to each other as the co-efficient of correlation is 0.9 and is significant both at 0.05 and 0.01 levels as the calculated 't' value is greater which accounted for 6.193 in the first phase and 0.8 in the second phase as the tabular 't' value which accounted for 8.998 in the second phase and is significant both at 0.05 per cent and 0.01 per cent (2.861 and 2.539). An increase of 3.1 times and 1.8 times of branch expansion had led to, an increase of 4.3 times and 10.0 times of per branch deposits; 6.9 times and 9.9 times of per branch advances in the first and second phase. Which is why, the linear growth curve of per branch deposits and per branch advances lies above to that of linear growth curve of branches in both the phases. Hence, the correlation between the growth rate of branches and per branch deposits; per branch deposits and advances; and branches and per branch advances are positively correlated at 0.9 level in both the phases. The co-efficient of correlation is also significant both at 0.05 per cent which accounted for 3.250 and 2.861 and at 0.01 per cent which accounted for 2.821 and 2.539 as the calculated 't' values are greater which accounted for 6.193 and 8.998.
An increase of 6.9 times and 9.9 times of per branch advances has led to an increase of 9.6 times and 9.0 times of per branch advances to the priority sectors, which, in turn, led to the increase of 13.9 times and 7.0 times; 8.3 times and 7.9 times; and 9.3 times and 5.3 times of per branch advances to agriculture, small scale industries and other priority sectors in the first and second phases. Which is why the linear growth rate curve of per branch advances to the priority sectors lies below the linear growth curve of agriculture only in the first phase; but lies above the linear growth rate curves of small-scale industries and other priority sector advances in both the phases. Hence, the correlation co-efficient between the growth rate of per branch advances and priority sector advances; between per branch advances and agriculture; and between per branch advances and small-scale industries is at 0.9 level and is significant both at 0.05 per cent (3.250) and 0.01 per cent (2.821) levels as the calculated 't' value is greater, which accounts for 6.193 and 8.998 in the first and second phases. At the same time, the correlation co-efficient between per branch advances and other priority sector is at 0.7 and also is significant both at 0.05 per cent and 0.01 per cent level as the calculated 't' value accounted for 4.286. In the second phase the correlation co-efficient between growth rate of per branch advances and priority sector advances is at 0.5 level and is not significant both at 0.05 per cent and 0.01 per cent level as the calculated 't' value which accounted for 2.517; whereas, it was 0.8 in both the case of correlation co-efficient between the growth rate of per branch advances and agriculture;
and between the growth rate of per branch advances and small-scale industries and is significant both at 0.05 per cent and 0.01 per cent level as the calculated 't' value accounts 5.812. But in the case of the correlation co-efficient between the growth rate of per branch advances and other priority sector it is at 0.1 and is not significant both at 0.05 per cent and 0.01 per cent as the calculated 't' value is 0.439.

An increase of 3.0 times and 11.8 times of per branch income has led to an increase of 3.0 times and 10.4 times of per branch expenditure and 2.8 times of and 119.7 times of profits in both the phases. Which is why the linear growth curve of per branch profits lies below the linear growth curve of income and expenditure in the first phase whereas it lies above to them in the second phase particularly after 1995 owing to the implementation of Narsimham Committee recommendations. Hence, the correlation co-efficient between the income and expenditure in both the phases is at 0.9 level and is significant both at 0.05 per cent which accounted for 3.250 and 2.861 and 0.01 per cent which accounted for 2.821 and 2.539 as the calculated 't' value is greater which accounted for 6.193 and 5.812 in the first and second phases. At the same time the correlation co-efficient between the income and profits; and expenditure and profits is at 0.9 level in the first phase and 0.8 level in the second phase and is significant both at 0.05 per cent and 0.01 per cent levels as the calculated 't' value is greater which accounted for 6.193 (in the first phase) and 5.812 (in the second phase) than the tabular 't' value which accounted 3.250 and 2.821 in the first phase and 2.861 and 2.539 in the second phase. An increase of 3.1 times and 1.8 times of branch
expansion has led to the increase of 1.8 times and 13.6 times; 10.9 times and 88.6 times; and 3.8 times and 10.0 times of increase of per branch spread, burden and working fund in the first and second phase. Which is why, the linear growth rate curve of per branch spread lies below the linear growth rate curve of per branch profits, working fund and burden in the first phase; whereas; it lies above working fund and below to profits and burden in the second phase. Hence, the correlation of co-efficient between the growth rate of per branch profits and spread; and per branch profits and burden and per branch profits and working fund is at 0.4 and 0.3; 0.2 and 0.1; and 0.5 and 0.4 levels in the first and second phases and is not significant both at 0.05 per cent and 0.01 per cent levels, as the calculated 't' value accounted for 1.310, 0.943 and 0.613 (in the first phase) and 0.439, 2.516 and 1.904 (in the second phase).

An increase of 3.2 times and 1.4 times of employees had led to an increase of 4.1 times and 13.1 times of per employee deposits; and 6.7 times and 13.0 times of per employee advances of public sector banks in both the phases. Which is why the linear growth rate curve of per employee deposits lies below the linear growth rate curve of per employee advances in the first phase and, more or less, coincide with per employee advances in the second phase. Hence, the correlation co-efficient between per employee deposits and per employee advances is at 0.9 level in both the phases and is significant both at 0.05 per cent (3.250 and 2.861) and 0.01 per cent level (2.821 and 2.539) levels as the calculated 't' value accounts 6.193 and 8.998.
An increase of 6.7 times and 13.0 times of per employee advances had led to an increase of 6.5 times and 13.2 times; 15.0 times and 9.2 times, 8.0 times and 10.3 times; and 12.0 times, and 7.0 times of per employee advances to the priority sectors, and advances to agriculture, small-scale industries and other priority sector advances in both the phases. Which is why the linear growth curve of per employee advances lies below the linear growth curve of per employee advances to agriculture, small-scale industries and other priority sectors in both the phases. Hence, the correlation coefficient between the growth rate of employee advances and priority sector advances is at 0.9 in the first phase and is significant both at 0.05 per cent (3.250) and 0.01 per cent (2.821) levels as the calculated 't' value accounted for 6.193 in the second phase it accounted for 0.5 per cent and is not significant both at 0.05 per cent (2.861) and 0.01 per cent (2.539) levels as the calculated 't' value accounted for 2.517; whereas, the correlation coefficient between the growth rate of per employee advances and per employee advances to agriculture and small-scale industries is at 0.9 in the first phase and 0.8 in the second phase and is significant both at 0.05 per cent and 0.01 per cent levels as the calculated 't' value accounted for 6.193 and 5.812. At the same time, the correlated co-efficient between the growth rate of per employee advances and other priority sectors advances is 0.8 and is significant both at 0.05 per cent and 0.01 per cent levels in the first phase as the calculated 't' value accounted for 4.000 whereas it was only -0.01 in the second phase; and is not significant both at 0.05 per cent and 0.01 per cent as the calculated 't' value accounted for -0.044.
An increase of 2.9 times of income has led to an increase of 2.8 times and 2.5 times of expenditure and profit in the first phase; whereas, an increase of 15.5 times of increase in income has led to an increase of 13.8 times and 175.0 times of expenditure and profits in the second phase. Which is why the linear growth rate curve of income lies above the linear growth rate curve of expenditure and profits in the first phase; and lies above the linear growth rate curve of expenditure and below to that of linear growth rate curve of profits in the second phase owing to the recommendations of Narasimham Committee report. Hence, the correlation co-efficient between the growth rate of per employee income and expenditure is at 0.9 in both the phases and is significant both at 0.05 per cent and 0.01 per cent level as the calculated 't' value accounted for 6.193 and 8.998; whereas, the correlation co-efficient between per employee income and profits; and between per employee expenditure and profits is at 0.7 and is significant both at 0.05 per cent (3.250 and 2.871) and 0.01 per cent (2.821 and 2.539) level as the calculated 't' value accounted for 4.286 in the first phase. But it was only 0.3 in the second phase and is not significant both at 0.05 per cent and 0.01 per cent levels as the tabular 't' value is greater which accounted for 2.861 and 2.539 than the calculated 't' value which accounted for 1.371.

An increase in the number of employees by 3.2 times had led to an increase of 1.7 times, 16.0 times and 3.7 times of per employee spread, burden and working fund respectively in the first phase; and 1.4 times of increase in employees had led to an increase of 17.1 times, 116.7 times and
13.0 times of per employee spread, burden and working fund in the second phase. Which is why, the linear growth rate curve of burden lies above the linear growth rate curves of working fund and spread in both the phases; whereas, the linear growth rate curve of spread lies below working fund in the first phase and above it in the second phase. Hence, the correlation coefficient between the growth rates of per employee profits and spread; between the growth rates of per employee profits and burden; and between the growth rate of per employee profits and working fund is at 0.5, 0.4 and 0.2 respectively in the first phase and is not significant both at 0.05 (3.250) per cent and 0.01 per cent (2.821) levels as the calculated 't' value accounted for 1.732, 1.310 and 0.613; whereas, the correlation co-efficient of them is at 0.1, 0.4, and 0.3 in the second phase and is not significant both at 0.05 per cent (2.861) and 0.01 per cent (2.539) level as the calculated 't' value accounted for 0.439, 1.904 and 1.371.

On the whole, since eighties, especially in the nineties the per branch and per employee deposit mobilization, deployment of advances, earnings, expenditure and burden shows an increasing trend whereas profits are declining.

Hence, the null hypothesis "The productivity of public sector banks is not significant" stands accepted.

Bankers are of the view that profitability of the banking sector has to be strengthened to ensure viability of the banking system as in assessing the capacity of banking institutions in fulfilling its obligation depends on the level
of financial stability of the institution. The viability of a banking institution is assessed more in terms of its profit than anything else and hence there is a need for profitability in banking sector. Some maintain that, though profitability is required to be maintained in banks, it should not be at the cost of social objective. As against this, others view that achievement of social objective should be the function of Government and not of the banking sector. Further, they maintain that the banking system exists only for doing commercial banking business and magnitude of profit indicates the extent of their contribution to the national exchequer. Therefore, like other commercial organisations, banking sector must be allowed to earn profit to strengthen the public confidence, to make it viable and strengthen the economy. However, banks are basically commercial organizations dealing with public funds which come to them solely on the basis of public confidence. Profitability is an index of operational efficiency of banks and their performance, among others, is gauged on this important parameter. Therefore, the issue of profitability and viability of banks is of considerable importance. Against such a backdrop, the need for studying the emerging trends and ratios of different components of earning and expenditure structure which influence profit and profitability of the banks cannot be over-emphasized. Thus, the analysis is broadly divided into three sections. Section A deals with the growth analysis by taking six indicators like income, expenditure, burden, spread, working fund and profits. The trend of growth of the indicators is analysed in section-B. The section-C encompasses ratio analysis by taking three sets of ratios like spread, burden and profitability.
An increase of 9.3 times and 21.4 times of income of Public Sector Banks has led to an increase of 9.3 times and 18.8 times of expenditure; 33.6 times and 160.9 times of burden; 5.8 times and 24.7 times of spread; 11.8 times and 18.0 times of working funds; and 7.8 times and 214.2 times of profits in first and second phases. The average and compound growth rates of income, expenditure, spread, burden, working funds and profits accounted for 23.2 per cent and 24.0 per cent; 23.2 and 24.2 per cent; 44.1 per cent and 34.8 per cent; 18.0 per cent and 17.8 per cent; 26.8 per cent and 31.2 per cent and 24.5 per cent and 17.9 per cent in the first phase; whereas, it was 16.4 per cent and 16.6 per cent; 15.7 per cent and 16.2 per cent; 35.4 per cent; and 33.1 per cent; 18.9 per cent and 18.1 per cent; 14.8 per cent and 15.3 per cent and 73.4 per cent and 28.3 per cent in the second phase.

Ratio Analysis is used to substantiate the trend analysis to identify the cause of changes in profit and profitability over a period of time. Three sets of ratios have been used viz., spread ratio, burden ratio and profitability ratio. Spread is the difference between the interest earned and the interest paid by commercial banks to meet their administrative operating and other expenses. Banks always, therefore, enhance spread volume so as to increase their profitability. It is the amount of spread in relation to the total working fund which is significant for the banks to analyse their profitability. The ratio of spread to working fund ratio is considered to be important for the profitability of commercial banks. Spread as percentage to working fund has
declined to 2.0 per cent in 1980 from 4.1 per cent in 1970 i.e., in first phase; but it slowly increased to 2.7 per cent in 2001 from 1.9 per cent in 1981 i.e., in the second phase. The average and compound growth rate accounted for 2.5 per cent and 2.2 per cent in the first phase; and 2.4 per cent and 2.1 per cent in the second phase. Burden influences considerably by the profits of the bank. Higher the burden, the lower the profitability, hence, the vital importance of a proper management of burden is necessary if banks were to enhance their profits. Burden as percentage to working fund increased to 1.9 per cent at the end of the first phase i.e., in 1980 from 0.7 per cent in 1970 and again increased tremendously to 16.6 per cent and at the end of second phase i.e., in 2001 from 1.9 per cent in 1981. The average and compound growth rate of it accounted for 0.7 and 2.1 per cent in the first phase and 7.1 per cent and 15.4 per cent in the second phase.

Profitability ratio is the common ratio required to judge the performance of commercial banks. Profitability ratios can be observed by taking profits as percentage of working fund, total income, total deposits, spread and burden. One of the main analytical tools to determine the profitability is the net ratio of profits as the ratio of working funds. Working Funds implies total liabilities contra items. Even though the total amount of working fund and profits has increased by 11.8 times and 7.8 times; and 18.0 times and 214.2 times in the first and second phases; the profits as the percentage to the working fund has remained, more or less, constant at 0.1 per cent (in the first phase) and slowly increased to 1.4 per cent (in the
The average and compound growth rates of profits percentage to working fund accounted for 1.2 per cent and -2.5 per cent in the first phase and 0.4 per cent and 13.6 per cent in the second phase. Another important tool to determine profitability is the net ratio of profits as the ratio of total income. Total income included earning on interest and discount, commission, exchange and brokerage and other receipts of the banks. At the same time, income has increased by 9.3 times and 21.4 times; whereas, profits increased by 7.8 times and 214.2 times in the first and second phases correspondingly; the profits as percentage to the total income has declined to 1.4 per cent (in the first phase) and increased tremendously to 13.3 per cent (in the second phase). The average and compound growth rates of profits as percentage to total income accounted for 1.6 per cent and -5.3 per cent in the first phase and 3.6 per cent and 9.8 per cent in the second phase. The total amount of deposits and profits increased by 13.4 times and 7.8 times; and 18.1 times and 214.2 times in the first and second phases. The profits as percentage to total deposits has declined to 0.2 per cent in 1980 from 0.3 per cent in 1970 (in the first phase) and increased to 0.8 per cent in 2001 from 0.6 per cent in 1981 (in the second phase). The average and compound growth rates accounted for 0.2 per cent and -8.4 per cent in the first phase; and 0.5 per cent and -1.8 per cent in the second phase. The amount of spread and profits has increased to 5.8 times and 7.8 times; and 24.7 times and 214.2 times in the first and second phases. The profits as percentage of spread has increased to 6.2 per cent in 1980 from
4.6 per cent in 1970 (in the first phase) and increased tremendously to 51.4 per cent in 2001 from 6.0 per cent in 1981 (in the second phase). The average and compound growth rates accounted for 5.0 per cent and -8.1 per cent and 15.0 per cent and 2.1 per cent in the first and second phases.

The total amount of burden and profits has increased by 33.6 times and 7.8 times and 160.9 times and 214.2 times in the first and second phases respectively. The profits as percentage to burden has declined to 6.5 per cent in 1980 from 28.4 per cent in 1970 (in the first phase) and again increased to 8.4 per cent in 2001 from 6.3 per cent in 1981 (in the second phase). The average and compound growth rates accounted for 18.3 per cent and 17.7 per cent in the first phase; and 6.4 per cent and 6.2 per cent in the second phase.

The co-efficient of correlation between profits and income; profits and spread is significant at 0.8 and 0.7 levels as the calculated 't' value is higher which accounted for 3.660 and 3.007 than the tabular 't' value both at 0.05 per cent which accounted for 3.250 and 0.01 per cent which accounts 2.821 in the first phase. But it is not significant in the case of correlation between profits and deposits; profits and working fund; and profits and burden, as the co-efficient of correlation is at 0.3, 0.5 and 0.4 levels as the calculated 't' values is lower which accounted for 1.040, 1.650 and 1.324 than the tabular 't' value both at 0.05 per cent (3.250) and 0.01 per cent (2.821) levels. In the second phase, the co-efficient of correlation between profits and income; profits and deposits, and profits and spread; profits and burden; and profits and working fund is at 0.4, 0.4, 0.1, 0.5 and 0.3 level and is not significant.
as the calculated 't' value is not significant as it is lower which accounted for 1.904, 1.904, 0.497, 2.360 and 1.575 than the tabulated 't' value both at 0.05 per cent (2.861) and 0.01 per cent (2.539) levels.

On the whole, since eighties the relation between the total profits of public sector banks and their income, deposits, spread, burden and working fund is not significant as the correlation co-efficient values are very low which indicates declining trend of profitability in public sector banking.

**Hence, the null hypotheses that "the profitability of Public Sector Banks is not satisfactory" stands accepted.**

The major objective of bank nationalisation was to make banks responsible to the needs of national development and aspirations of the common man. In consonance with this policy, the banking industry embarked upon a new phase requiring re-orientation of credit policy and operations.

Nationalisation was intended to accelerate the achievement of the objectives of social control which were elaborated as (i) removal of control by a few, (ii) provisions of adequate credit to agriculture and small industry, exports, (iii) giving a professional bent to management, (iv) encouragement of new classes of entrepreneurs, (v) the provision of adequate training as well as terms of service for bank staff, and (vi) extension of banking facilities in un-banked rural areas. To examine the achievement of the objectives of the public sector banks systematically, the following main objectives have been taken into consideration:
(i) Removal of control by a few, (ii) Giving professional bent to management and provision of adequate training as well as terms of service for bank staff, (iii) Expansion of banking facilities in un-banked rural area (iv) Channelisation of credit towards priority sectors such as agriculture, small-scale industries, exports and the weaker sections (v) Encouragement to new class of entrepreneurs.

The foremost reasons for taking over the banks was the charge that private banking institutions, being under the control and management of big industrialists and businessmen, were instrumental for the concentration of wealth and economic power through their lending policies. To remove the concentration by a few, the Reserve Bank of India has introduced the Credit Authorisation Scheme in 1965 and Differential Rate of Interest Scheme in 1972. The Reserve Bank of India through the Credit Authorisation Scheme restricts powers of scheduled commercial banks to extend credit. The scheme was introduced in November, 1965. The Credit Authorisation Scheme was liberalized periodically. In July 1987, it was liberalized to allow for greater access to credit to meet genuine demands in production sectors without the prior sanction of Reserve Bank of India. But Credit Authorisation Scheme was wound up in 1988. However, to ensure that the basic financial discipline continued to be observed by banks, Reserve Bank of India would monitor and scrutinize all sanctions of bank loans exceeding (a) Rs. 5 crores to any single party for working capital requirements and (b) Rs. 2 crores in the case of term loans. This post-sanction scheme has been called Credit Monitoring Arrangement. Again it was one of the objectives of the nationalisation of
major commercial banks that bank credit should be made available to persons who hitherto desired the facility i.e., the 'weakest of the weak'. The Differential Rate of Interest Scheme was introduced in 1972 to make interest rate mechanism subserve the objective of 'social justice' in the matter of distribution of credit. It envisaged the making of loans and advances by public sector banks at the concessional rate of 4 percent per annum to small farmers and other persons belonging to low income borrowers for such productive endeavours or enterprises on a modest scale as would become economically viable within a period of three years. The share of Differential Rate of Interest Scheme in total bank advances is less than one per cent upto 1980 and more than one per cent upto 1988. But after 1988, it was less than 1 per cent.

As a result of the nationalisation of major commercial banks, both the Central Government and the Reserve Bank of India have been equipped with wide powers for influencing broader policies of the management of these banks. It is the prime duty of the organisation to take all necessary steps to promoting the welfare of the entire man-power by providing the required opportunities to perform by creating suitable environment. The most powerful tool of sub-development for any individual is through the process of professional training as this would enable him to fill in the knowledge gap to do the required result in the right perspective. Training programmes should also ensure training opportunities to all staff members at least once in a year.
For expansion of banking facilities in un-banked rural areas, the Government and Reserve Bank have sponsored various schemes such as Lead Bank Scheme, Rural Oriented Branch Expansion Programme, Village Adoption Scheme, Farmer’s Service Societies and Financing of Primary Agricultural Credit Societies. As at the end of March, 2001, the Lead Bank Scheme covered 576 districts of the country. All the public sector banks are actively involved in the implementation of Lead Bank Scheme. The main focus of the Lead Bank Scheme is to enhance the proportion of bank finance to the priority sector. The objective of the scheme has been to co-ordinate the activities of banks and other developmental agencies and to facilitate the flow of credit to the priority sector. The annual credit plans prepared in recent years fixing targets for different sectors - agriculture and allied activities, small-scale industries and service - sectors - are normally fulfilled to the extent of 95 to 96 per cent.

An effort was made by the Government to fill the gap in the un-banked, under-banked, semi-urban, rural and backward areas on the banking map. Undoubtedly, this was one of the welfare measures seeking to revive and reorganize the village economy through modern banking. During the first phase, the number of rural branches increased by 4.1 times; whereas, the number of branches in semi-urban, urban and metropolitan areas increased by 2.1 times, 3.1 times and 2.5 times and the percentage share of them in total bank branches at the end of the first phase accounted for 42.4 per cent, 26.6 per cent, 16.2 per cent and 14.8 per cent. But in the
second phase; the total number of rural bank branches increased only by 1.6 times; whereas, it increased by 1.5 times, 2.3 times and 1.8 times in the case of semi-urban, urban and metropolitan areas. Even though the increase in bank branches is high in urban and metropolitan during the second phase, on the whole, the percentage share of rural bank branches is highest which accounted for 39.0 per cent; whereas, it was 24.0 per cent, 22.0 per cent and 15.0 per cent in the case of semi-urban, urban and metropolitan areas. Hence, the co-efficient of correlation between total branches and rural branches, between total branches and semi-urban branches; between total branches and urban branches, and between total branches and metropolitan branches is 0.9 and is significant both at 0.05 per cent (3.250 in the first phase and 2.861 in the second phase) and 0.01 per cent (2.821 and 2.539 in the second phase) levels.

Under Village Adoption Scheme, the number of adopted villages increased by 15.7 times. The percentage share of total priority sector advances in total public sector advances accounted for 40.8 per cent and 43.9 per cent at the end of the first and second phases. The average and compound growth rates of priority sector advances accounted for 42.4 per cent and 37.5 per cent in the first phase; and 15.6 per cent and 14.1 per cent in the second phase. At the end of first and second phases, the percentage share of priority sectors accounted for 40.8 per cent and 43.9 per cent; of which, the agriculture accounted for 15.3 per cent and 12.7 per cent; small-scale Industries 14.2 per cent and 11.4 per cent; exports 5.1 per
cent and 17.2 per cent; and other priority sectors 6.1 per cent and 2.8 per cent. The average and compound growth rate of agricultural sector accounted for 47.0 per cent and 43.1 per cent in the first phase; whereas, it was 13.1 per cent and 11.9 per cent in the second phase, and it was 40.4 per cent and 32.8 per cent in the first phase and 14.0 per cent and 13.7 per cent in the case of small-scale industries in the second phase. In the case of exports it was accounted for 39.7 per cent and 36.6 per cent in the first phase and 21.7 per cent and 24.1 per cent in the second phase; whereas, it accounted for 51.8 per cent and 37.6 per cent in the first phase and 51.8 per cent and 6.1 per cent in the case of other priority sector advances in the second phase.

An increase of 17.4 times of public sector advances had led to an increase of 29.8 times of total priority sector advances and 43.1 times, 26.1 times, 20.0 times and 29.1 times of agricultural, small-scale industries, exports and other priority sector advances in the first phase; whereas, an increase of 17.1 times of public sector advances had led to an increase of 18.2 times of total priority sector advances. This, in turn, led to the increase of 12.7 times, 14.4 times, 52.5 times and 9.6 times of agriculture, small-scale industries, export and other priority sector advances in the second phase. The co-efficient of correlation between the total public sector advances to priority sector advances; between the total public sector advances to agriculture; between the total public sector advances and small-scale industries; between the total public sector advances and exports; and
between the total public sector advances and other priority sectors is at 0.9 in the first phase and 0.8 in the second phase. Hence, the co-efficient of correlation is significant as calculated 't' value is higher which accounted for 6.193 for the first phase and 8.998 for the second phase, than the tabular 't' value both at 0.05 per cent (3.250 for the first phase and 2.861 for second phase) and 0.01 per cent (2.821 for the first phase and 2.539 for the second phase).

For encouraging the new class of entrepreneurs, the public sector banks have introduced certain welfare programmes like Integrated Rural Development Programme, Training of Rural Youth for Self-Employment, 20-point Economic Programme, Self-Employment Scheme for Educated Unemployed Youth and Food Procurement Operations.

Under the Integrated Rural Development Programme, banks had assisted nearly 3 million beneficiaries in 1990-91 and disbursed a total amount of Rs. 1,190 crores as loans and Rs. 808 crores as subsidy. Out of the 3 million beneficiaries, nearly 1.5 million belonged to Scheduled Castes / Scheduled Tribes and 0.9 million were women. During 1999-2000, public sector banks advanced Rs. 19,240 crores to the weaker sections of the community. This stood at 7.2 per cent of total public sector bank credit as against their target of 10 per cent. One good feature is that the proportion of recovery of public sector banks under this programme loans has steadily improved from 12 per cent to 34 per cent.
Under the Training of Rural Youth for Self-Employment, on completion of the training, the beneficiaries are assisted under the Integrated Rural Development Programme. During Seventh Plan, about 9.99 lakhs of the rural youth were trained as against 10.15 lakhs in Sixth Plan. Of the youth trained during the Seventh Plan, 4.65 lakhs were self-employed and 1.31 lakh were employed on daily wages.

Under 20-Point Economic Programme, the number of borrowal accounts increased to 279.60 lakhs in 1996 from 203.85 lakhs in 1991 i.e. an increase of 1.4 times; whereas, the amount of advances increased by Rs. 16,736.63 crores in 1996 from Rs. 11,702.55 crores in 1991 i.e. an increase of 1.4 times.


Under Food Procurement Operations, the share of public sector banks increased by 2.8 times. Within the public sector banks, the share of State Bank and its subsidiaries increased to Rs. 8,40,461 lakhs in 2000 from Rs. 3,40,134 lakhs in 1995 i.e. an increase of 2.8 times; whereas, the share of nationalised banks increased to Rs. 23,16,93,030 lakhs in 2000 from Rs. 8,71,629 lakhs in 1995 i.e. an increase of 265.8 times. At the same time the share of private sector banks increased to Rs. 35,644 lakhs in 2000 from Rs. 1,5691 lakhs in 1995 i.e., an increase of 2.3 times only.
On the whole the main objectives of public sector banks particularly expansion of banking facilities in un-banked rural areas, liberalised timely credit deployment to priority sectors and encouraging new class of entrepreneurs have been successfully implemented.

**Hence, the null hypothesis that “The social objectives of the public sector banks are not achieved” stands rejected.**

In the light of the major findings of the study, the following important conclusions are drawn.

After nationalisation, the Public Sector Banks have achieved impressive results, particularly in achieving national targets, even though some insignificant trends were observed in the case of productivity and profitability. Owing to the nationalisation of major commercial banks, the following are the significant results.

I (a) The growth of public sector banks had been more significant as compared to that of private sector banks.

(b) Public Sector Banks are playing a crucial role in mobilizing resources (deposits) and lending advances by their branch expansion programme.

II (a) After nationalisation, an increase in bank branches has led to an increase in per branch deposits and advances.

(b) Increase in per branch advances has led to an increase of per branch advances to the priority sectors significantly.

(c) Increase in per branch advances has led to an increase of per branch advances to agriculture and small-scale industries mainly.

282
(d) After eighties, an increase in per branch income has led to an increase of per branch expenditure, but declined in profits particularly in nineties.

(e) Per branch profits and spread, burden and working funds are not significant. Even though, the correlation between profits and spread; profits and burden; and profits and working fund is positive but it is not significant.

(f) Increase in number of bank employees had led to an increase of per employee deposits and advances.

(g) An increase in per employee advances had led to an increase of per employee advances to priority sectors significantly.

(h) An increase in per employee advances had led to an increase of per employee advances to agriculture and small-scale industries mainly.

(i) Since eighties, an increase in per employee income and expenditure has increased tremendously, but decline in profits, particularly in nineties, was noticed.

(j) Even though the correlation between profits and spread, profits and burden; and profits and working funds, is positive, it is not significant.

III (a) Incremental volume of business, generally, has a direct and positive bearing on the profit volume of the public sector banks.

(b) Total expenditure has a negative impact on profitability.

(c) Increase in spread has a direct and positive impact on the profitability of the banks.

(d) Reducing in the flow of working fund has direct and positive impact on the profitability of public sector banks.

(e) Burden has always been a negative contribution to bank profit.
IV. On the whole, the public sector banks have successfully achieved their objectives, to the greater extent, such as,

(a) Reducing the concentration by a few by introducing 'Credit Authorisation Scheme' and 'Differential Rate of Interest Scheme'.

(b) Human Resource Development is significant in the banking sector after nationalisation.

(c) Expansion of banking facilities in un-banked rural areas is significant.

(d) Public sector banks have been making significant advances to the priority sectors particularly small-scale and agriculture where most of the beneficiaries are drawn for the weaker sections.

(e) Public sector banks have been encouraging the new dynamic entrepreneurial class by implementing various self-employment schemes.

In the light of the present study, the following policy suggestions are put forth for consideration.

Some of the policy suggestions are as follows:

1. Banks should set-up 'Assets Reconstruction Fund' to take over all doubtful debts;

2. Profit analysis on the basis of products and accounts need to be conducted by the banks in general and public sector banks in particular, which would help them in recasting their cost estimates for different types of activities / group of customers.

3. It should be kept in view that while there is not much scope to cut down the fixed costs / expenses, the variable costs / expenses can be reduced if genuine effort is made in that direction. It is suggested that strictest control be exercised on the variable costs / expenses.
4. Banks must get more freedom to fix minimum lending rates of interest.

5. Banks should explore new sources of funds such as Certificates of Deposits.

6. Banks should generate more interest income if the size of the funds available for loans / advances / investments were to be augmented. Banks can increase their profitability by a vigorous and intensive mobilization of deposits for which the following steps to be taken.

   (a) By designing various deposit mobilization schemes according to the customer's preferences.

   (b) Organising deposit mobilisation centres to offer large scope for saving potential.

   (c) Examining the stagnant branches with negative growth for identifying areas of improvement. Branch expansion should be carried out strictly on commercial principles.

   (d) Improving customer service and economy in costs through mechanisation at large in urban and metropolitan branches.

   (e) Introducing Automatic Teller Machine system to facilitate in payment mechanism and to cut down waiting time.

7. Unless the communication line is kept open all the way down to the financial organisation, profitability management cannot be effective or result-oriented as it is managerial skill-oriented, analytic and is based on decision-making tools and methods.

8. Advances should not ordinarily be granted beyond the discretionary powers of authorities. Proper sanctions / Instructions should be obtained from competent authorities within seven days. Prevention of excess withdrawals from accounts and ensuring of proper end-use of credit measures and procedures should be seriously planned and implemented.
9. In view of the rising personnel costs, the deployment of employees in branches particularly the rural areas, may be examined and the work load may be rationalised by inter-branch adjustments. Over-staffing should be avoided at all costs.

10. The public sector bank management should concentrate on improving the productivity and profitability. As far as possible dynamic leadership with well-trained staff should be provided.

11. Lastly, but not the least, the public sector banks should phase out the priority sector lending, as recommended by the Narasimham Committee.

12. Banking activities should be diversified.

The present study entitled “Productivity, Profitability and Social Objectives of Public Sector Commercial Banks in India” is a fact finding research. In the course of study, some aspects of factors influencing deposits, advances, total earning, total expenditure and thereby the productivity and profitability and achievement of social objectives in India have been examined. The empirical analysis of the productivity, profitability and social objectives undertaken in this study, discloses the relationship among various factors which are controllable and non-controllable by the bank itself. This study is especially useful for policy-makers, bankers, researchers as it provides adequate information and data. The banking sector as well as the Reserve Bank of India and the Government of India, in future, can make use of the findings of the study for better financial management of the banking sector. Researchers can also draw on findings as the basis for their future work. Therefore a separate and distinct macro-economic analysis is essential to understand the true working of the economic system as a whole.