CHAPTER V

MANAGERIAL PERFORMANCE
Management is a driving force of any business concern in attaining its objectives.

The efficiency of the management of a credit institution like commercial bank is evaluated on the basis of its objectives achieved which spell-out in terms of efficient mobilization of funds, effective deployment of credit and better recovery of credit, its efficient funds management and better working results as is seen in form of profit through its sound structure and healthy organization. In policy formulation as well as its implementation, the scientific approach is very niche in the commercial banks in the present context of liberalization due to competition regionally, nationally and globally between and within these institutions.

Any attempt in assessing the performance of commercial banks would become futile exercise without knowledge of the managerial accomplishments. An important and also often practiced method of measuring the commercial banks ‘success’ involves their managerial performance including recovery of loan lent. This is attempted in this present chapter.

MANAGERIAL ASSESSMENT CRITERIA

A well defined objective force the management of a commercial bank is that how and when it has got to be accomplished its objectives. The accomplished objective is to get measured against its initiation. A basic objective is represented if the achieved performance is satisfactory degree.

Like blood to human beings, finance to the credit institution. A group of activities pertaining to the funds flow-in and flow-out, cost of operations and spread constitute criteria evaluating the efficiency of management of commercial banks. The managerial appraisal is a process of assessing the management in terms of working results; augmenting the business of credit institutions.
Aim of struggle for existence depends upon earning profit. This canon is of universal application and is to be sustained in rendering quality services towards the progress of society. But, rendering such quality services in the context of competitive and complex scenario would need the management to be on professional approach. This invariably needs to take up the manpower planning, training and modern management tools; and carrying out an innovative measure to meet the modern day needs. The business operations involved in finance are not free from risk. Hence, care and caution are need in making decisions pertaining to the financial matters.

The commercial banks have been playing a greater role in promoting Indian economy. Further, financing priority sector which is economically weak but generate avenues to million of people. Financing such significant role of the priority sector on social obligations could affect the financial results of the commercial banks. At the same time, they have to earn a reasonable rate of return to sustain their existence for gaining the objectives set for.

An efficient approach and every one that could view is the managerial performance which is assessed on the basis of quantifiable parameters. The measures of this nature, measuring the managerial performance of the commercial banks, are:

- Management of funds
- Management of productivity and profitability
- Management of spread-burden-profit

**MANAGEMENT OF FUNDS**

Judicious flow of funds is a primary canon in efficient management of funds in any credit institution including the commercial banks. The commercial banks raise share capital, create reserves, mobilize deposits and borrow funds. These inflow channels of finance need to maintain adequate funds to meet the demand as and when arises.
The credit institutions would need to meet the demand there and then; otherwise, they lose the confidence of public for whom they came into being. Once the confidence lost, it is lost for ever; and the credit institutions face many problems.

**Funds Flow Relation:** In-flow and out-flow of funds relation is studied to know the funds mobility. The latter is always depending upon the former to maintain a good relation. "Mobility of funds can be used to forecast the future of business."1 The in-flow and out-flow of funds relation is studied by:

\[
Su = \frac{du}{ds} \times \frac{Tst}{Tut}
\]

Where,

- \( Su \) = Source elasticity of funds use
- \( du \) = Change in use of funds
- \( ds \) = Change in sources of funds
- \( Tst \) = Total sources of funds including recoveries
- \( Tut \) = Total use of funds

A positive change in use of funds is to be brought by a change in supply of funds. Such change in the dependent variable of funds use, the elasticity of funds would be one. The elasticity of funds use will be less than one, if the supply of funds and use of funds do not move hand-in-hand. This, obviously, shows the inefficiency of funds management.

A change in deposits should move a change in the same direction with the change in credit positively. The relationship between deposits and credit is examined by the deposit elasticity. It is written as:

\[
de = \frac{dc}{dd} \times \frac{D}{C}
\]
Where,

\[
\begin{align*}
de &= \text{Deposit elasticity} \\
D &= \text{Total Deposits mobilized} \\
C &= \text{Total credit deployment} \\
dc &= \text{Changing in credit} \\
dd &= \text{Change in deposits}
\end{align*}
\]

The relative change in deposits corresponds to the subsequent change in credit deployed, if the deposit elasticity is one. If it is less than, it means their relation is negative.

The commercial banks were known to be working on the commercial pattern till the advent of their nationalization in 1969. In the post-nationalization period, a shift took place in the pattern of operations of banking towards ‘mass’ banking from ‘class banking.’ Consequently, social banking has eclipsed the importance of profit aspect of commercial banks. Deposits mobilization, branch expansion and priority sector lending at concessional rate of interest occupied the centre stage of banker’s planning and performance in the changing environment. Analysis of data on the source elasticity of fund use and the deposit elasticity are presented in Table 5.1.
### TABLE 5.1
ELASTICITY OF FUND USE AND DEPOSIT ELASTICITY OF CREDIT

<table>
<thead>
<tr>
<th>Year</th>
<th>Source of elasticity of funds use (Su)</th>
<th>Deposit Elasticity of credit (de)</th>
<th>Difference factor (de) (Col.2 - Col.3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-92</td>
<td>1.01</td>
<td>1.12</td>
<td>-0.11</td>
</tr>
<tr>
<td>1992-93</td>
<td>0.76</td>
<td>0.59</td>
<td>0.17</td>
</tr>
<tr>
<td>1993-94</td>
<td>0.99</td>
<td>1.14</td>
<td>-0.15</td>
</tr>
<tr>
<td>1994-95</td>
<td>1.08</td>
<td>0.52</td>
<td>0.56</td>
</tr>
<tr>
<td>1995-96</td>
<td>0.96</td>
<td>1.15</td>
<td>-0.19</td>
</tr>
<tr>
<td>1996-97</td>
<td>0.97</td>
<td>1.81</td>
<td>-0.84</td>
</tr>
<tr>
<td>1997-98</td>
<td>0.51</td>
<td>0.49</td>
<td>0.02</td>
</tr>
<tr>
<td>1998-99</td>
<td>0.94</td>
<td>0.85</td>
<td>0.09</td>
</tr>
<tr>
<td>1999-00</td>
<td>0.83</td>
<td>0.99</td>
<td>-0.16</td>
</tr>
<tr>
<td>2000-01</td>
<td>1.00</td>
<td>0.03</td>
<td>-0.16</td>
</tr>
<tr>
<td>2001-02</td>
<td>1.08</td>
<td>0.02</td>
<td>-0.08</td>
</tr>
<tr>
<td>2002-03</td>
<td>1.42</td>
<td>0.03</td>
<td>0.09</td>
</tr>
<tr>
<td>2003-04</td>
<td>1.03</td>
<td>0.01</td>
<td>0.16</td>
</tr>
<tr>
<td>2004-05</td>
<td>1.08</td>
<td>0.06</td>
<td>-0.84</td>
</tr>
<tr>
<td>2005-06</td>
<td>0.97</td>
<td>0.06</td>
<td>-0.48</td>
</tr>
<tr>
<td>2006-07</td>
<td>1.97</td>
<td>0.06</td>
<td>0.84</td>
</tr>
<tr>
<td>2007-08</td>
<td>0.57</td>
<td>0.05</td>
<td>0.48</td>
</tr>
<tr>
<td>2008-09</td>
<td>1.08</td>
<td>0.04</td>
<td>0.18</td>
</tr>
<tr>
<td>2009-10</td>
<td>1.36</td>
<td>0.01</td>
<td>0.29</td>
</tr>
</tbody>
</table>

Source: Table 3.5 and Table 3.8
Reserve Bank of India, various Bulletins and Issues
Table 5.1 clearly shows that the deposits and credits are not that of much soundness and good relation which have as observed, fluctuating trend during the study period. During the first phase of reform period only four years out of 7 years, the deposit elasticity is more than one implying that mobilization of funds is more than deployment of credit; and during second phase reforms period of 12 years, six years the deposit elasticity is more than one. Deposit elasticity is 1.12 in 1991-92, 0.49 in 1997-98 and 0.01 in 2009-10. The deposit elasticity is more than one during 19 years period in 1991-92, 1993-94, 1995-96, 1996-97 which are related to the first phase of reforms period. It means the average increase in deposit mobilization is more than the marginal increase in deployment of credit. The deposit elasticity which is less than one in the remaining years of the study period indicating the average increase in deposits is less than the marginal increase in credit deployment. From the analysis of Table 5.1, it is understood that the commercial banks with their innovative and specially designed deposit schemes had mobilized more deposits. In other words, their role in deposits mobilization is progressive with incremental phenomena.

Further, Table 5.1 shows that source elasticity of funds is 1.01 in 1991-92, 0.51 in 1997-98 and 1.36 in 2009-10. Source elasticity is more than one in 1991-92, 1994-95, 2000-01, 2001-02, 2002-03, 2003-04, 2004-05, 2006-07, 2008-09 and 2009-10. It means the average source of funds is more than the marginal increase in use of funds. The source elasticity is less than one in 1992-93, 1993-94, 1995-96, 1996-97, 1997-98, 1998-99, 1999-00, 2005-06 and 2007-08 which indicates the average increase in sources of funds is less than the marginal increase in use of funds.

The difference factor (Dt) is positive in the later period of the study i.e. 2006-07 onwards. It shows that the sources of funds are being supported more by deposits for
credit deployment. If the difference factor is negative, it implies that the sources of funds are inadequate by deposits for the operations of credit transactions.

PRODUCTIVITY AND PROFITABILITY

Examining the performance of a bank has been a common practice among many banking and finance researchers for a number of years. The main reason for the continued interest in this area of research is the ever-changing banking business environment throughout the world. With the introduction of financial deregulations in many parts of the world, the effect of such deregulations on bank efficiency has become an important issue. Financial deregulation was first introduced in the developed countries. Therefore, most studies on the effect of deregulation on bank productivity have been confined to the developed countries of the world. Many countries that adopted financial deregulation policies are now experiencing competitive banking practices. India is no exception and as an emerging market is becoming competitive and important market not only for financial products but also for other products.

Indian banking is a considerable component in Asian financial affairs and has not been subjected to substantial research compared to the countries in the developed world. A few studies attempt to assess the performance of Indian banks using data envelopment analysis (DEA) technique, a non-parametric methodology to evaluate the relative efficiency of production units and can accommodate multiple inputs and outputs. For example, Bhattacharyya, Lovell and Sahay (1997) examined the productive efficiency of Indian commercial banks during 1986-1991 and reported a marginal increase in overall average performance after 1987 and the average efficiency of publicly owned banks is much higher than the privately owned or foreign owned banks. Sathya (2001) compared productive efficiency of publicly
owned, privately owned and foreign owned banks operations in India in year 1997-98 and reported that private sector commercial banks as a group is paradoxically lower than that of public sector and foreign banks. These studies differ from each other in at least two ways: (i) the time period captured in the analysis and (ii) the input-output variables used in the DEA model.

Profitability and productivity are two qualitative terms, their attainability by the commercial banks in terms of quantity depend upon the effective and efficient management. In other words, a dual factor of effective and efficient management can be gained productivity and thereon profitability. That is why; it is referred ‘two-in-one.’ The relevance and rational of profitability and productivity are presented below.

Profit and profitability have become the buzz words. Profitability has become an indicator of competitive edge in selling products in the market and of managerial efficiency. Without profitability record, the commercial banks cannot attract investors regionally, nationally and globally. Thus, profitability norm, undoubtedly, accepted as key indicator of the operational efficiency of a commercial bank; and conducive climate environment for sound business operations and efficiency of the management. The concept of profit and profitability is to be made good to the branches of a bank also so that the ultimate goal of bank could be achieved. Any disharmony in terms of the goal of bank and that of branch is likely lead to disastrous; it consequently effect on that bank. Therefore, profitability is a primary goal for a bank and its branches in toto. This ensures better services in the competitive market, and insures the bank with sound financial management.

For the business enterprise, profitability is the sine-qua-non; so also to the banking industry notwithstanding its pre-eminently service-oriented nature. It is fact that revenue must exceed expenditure in the process of carrying the transactions. A bank,
being essentially financial intermediary engaged in purchasing and selling funds, is expected to earn a reasonable profit maintaining adequate margin for itself after covering the cost of services rendered.

Profit provides cushion to the commercial bank to support its credit-risk and withstand any unforeseeable developments. A profitable commercial bank has sufficient resources in its command to improve its business growth. Profitability is an index of the efficiency of healthy transactions undertaken by the commercial bank. Thus, profit constitutes the ‘sinew’ of long-term survival and growth; and contributes to the inner strength.

Commercial bank is a socio-economic institution. Earning profit is the active consideration of it, but should not deny the fulfillment of services required to the promotion of economy through social obligations. Accordingly, it needs to channelise its resources and efforts towards the socio-economic ends. Pursuit of this, it is contended, will interfere with the pursuit profit goal making economically optimal operations. Acceptance of social responsibility increases the cost and risks of doing business which yields a decreasing income.

No doubt, the social obligations increase the cost of operations and adversely affect the profitability of commercial bank. However, in the long-run, the economic goals and social responsibilities are compatible with each other, in fact, they reinforce each other. The former is the duty and the latter is responsibility of the commercial bank. Generation of adequate operational surpluses by commercial bank, thus, is essential not only to provide cushion to support the risks but also to supplement the finances of the Government.
A commercial bank to survive successfully, in the long run, has to accord due emphasis on profit goal as well as social goal. If funds are effectively and efficiently used, a blend of these two goals can be achieved. In other words, effective flow of funds and efficient managerial operations will ensure the goals of social and profit. Productivity is one of the major determinants of profitability. It is a function of inputs and outputs; and is an input-output relation.

Indian banking has gone through a three process namely, expansion, reorganization and consolidation. Prior to nationalization, growth of commercial banks was governed purely by the economic considerations. However, post-nationalization period witnessed greater emphasis on social objectives resulting in wide expansion of branch network, across the length and breadth of the country; greater mobilization of savings through specially designed deposit schemes; and greater channelisation of resources into the neglected economic significance sectors. Till recently, the manager’s performance was being evaluated in terms of productivity. It is not profitability that has been the concern of bank management but the priorities of policy towards the directed lending to the neglected and socially desirable sections of society coupled with the desire of spread of banking network to every nook and corner of the country forced productivity and profitability to take back seat.

Proliferation of non-remunerative small loaning under the Government sponsored schemes, excessive statutory pre-emption, political interference, etc., ensure services at a price that hardly meet the costs. Occasional sops of debt relief as populist political stance keep away the borrowers from repayment of loans. “The social objectives of nationalization seem to have been achieved; there has been a progressive determination in the efficiency, profitability and viability of the system with consequential adverse impact on the economy.” This led to Reserve Bank of India to
appoint Committee on Productivity, Efficiency and Profitability under the Chairmanship of J.E. Luther in 1977. The Committee emphasized on the necessity of using profitability and productivity as norms in assessing the performance of commercial banks.

Transparency in balance sheet disclosures has exposed the accounting jugglery of commercial banks which manifested artificially propped up profitability. As a result of transparency in accounting, many public sector commercial banks have suddenly been found to be in the red.

Transparency, efficiency and profitability have provided an opportunity for rebuilding the banking institutions into effective instruments of growth by improving their viability and toning up allocative efficiency of financial resources. This is all the more necessary when the Indian economy is set for global integration with concomitant thrust on competition, deregulation and technology. "Adoption of suitable strategies with focus on productivity, profitability, competitiveness and sustainability in an effective measure." Indian commercial banks have, now, come to a stage that they can survive and grow in competitive environment if they are customer-friendly, improve their services, enhance productivity and improve profitability on sustaining basis.

**MEASURING PRODUCTIVITY**

In the banking industry, its output consists not of any physical product whose properties could be analysed in a laboratory and whose production could be quantified easily, but a bundle of services, not easy for measurement. Further, commercial banks are not merely purveyors of credit and acceptors of deposits but also suppliers of financial assistance to the economically and socially neglected sectors. The costs
of new tastes are higher, while the returns from them are lower. Therefore, a more comprehensive and multi-dimensional approach is to be adopted to judge productivity. The criteria normally employed to judge productivity in commercial banks are:

- Per employee business
- Per employee deposits
- Per employee credit
- Per employee net operating profit

The average business handled per employee is taken as a measure of productivity of a commercial bank. Average business means the sum of average deposits, advances and other services which are the outputs generated by the input of human effort.

Fittest is the survive in the competitive climate. Anybody who desires can enter the field of business under the liberalization policy. So, there is every need to the bankers to come back to their profit goal with wider commercial market and diversified service portfolio. To have better profit, the banker needs to render quality of services of both product width and product-line on one hand; and on the other, the cost-conscious in administering the transactions by means of efficient and skilled manpower. Therefore, the commercial banks should have a mechanism with in-built system.

**WORKING RESULTS**

The profit of a commercial bank is the result of the revenue function and the cost function. The former shows that the total income of the commercial bank derived from the services rendered by it whereas the latter shows total expenses incurred on providing any service. The main sources of operating revenue of a commercial bank
are interest and discount on loans, dividend on investments, service charge on deposit accounts, and fees and other service charges. The expenditure items in commercial bank are salaries and wages, interest payment and deposit liabilities and other current operating expenses. The excess of operating revenue over operating expenses is the net operating income before tax. Net operating income is added to the net non-operating income. This net income of commercial bank will be available for the management only after the payment of taxes thereon. Thus, the magnitude of the income of a commercial bank is depended upon the variables of revenue and expense. The working results of commercial banks reflect in the quantum of income and expenditure mix. The components of income and expenditure are presented below.

**INCOME**

The major component income on which gaining profit and profitability of bank are interest and discount, dividend income and other income. The gist of these is explained hereunder.

**Interest and Discount:** Interest on loans made by a commercial bank and discount charged on bills of exchange constitute the principal source of income. The level of interest income depends essentially on the volume of loans and the types of loans advanced with commercial-orientation by a commercial bank and interest rates thereon.

**Dividend Income:** Dividend income is other source of commercial bank earnings, next in importance only to interest income. The level of dividend income depends on the amount and composition of investments made with those companies or firms yielding higher rate of return.
**Other Income:** Another important source of commercial bank earnings is other income which includes commissions, fee, exchange charges, brokerage, and non-funding business. For many years, and even today, many services are performed by commercial bank at free-of-charge or a nominal cost. The income from lockers, remittances, and service charges and fees (from credit borrowers for scrutiny and monitoring, etc.) is form the other income. Commercial banks may also charge for execution of mortgage or agreement securing loans, incomes from non-funding business such as merchant banking, mutual funds, venture capital etc., from part of the other sources.

**EXPENDITURE**

Commercial bank is a highly personalized service industry. The expenses of it are, to a large extent, fixed particularly in the short-run. Unlike other industries, the commercial bank management cannot curtail its expenditure by suspending the operations or by reducing the labour-force. In view of this, commercial bank expenses in the short-run are not related closely with the volume of business done by it. However, this is not giving the impression that management of commercial bank has no control over expenses in the long-run. Generally, commercial bank expenditure may be divided into three broad groups. They are that the expenses incurred towards:

(i) Interest on deposits and borrowings

(ii) Salaries, allowances, provident funds and bonus; and

(iii) Other expenses, including stationery, depreciation and repairs and other overheads.

**Interest on Deposits and Borrowings:** The most important expenses of a commercial bank are the amount of interest paid by it on deposits - time, savings and
other deposits and on borrowings. The interest cost on deposits, in a large measure, depends to the volume of bank deposits and their composition with governing rate of interest.

Salaries: The next largest expense item in a commercial bank is salaries of its employees. This includes salaries, allowances and other benefits, such as provident funds, bonus, etc. This type of expenditure depends upon the number of persons a bank employs for its efficient operations with salary structure. These expenses have been increasing in service industry because; most of the services offered by it are of a personal nature in addition to protecting from inflationary trend of economy.

Other Expenditure: The other expenditure includes directors and local committee members fees, law charges, rent, taxes, insurance premium, depreciation and repairs, postage, telegrams, stamps and stationary and printing and advertising.

Analysis of data on productivity and profitability of both the public sector commercial banks and the private sector commercial banks is presented in Table 5.2 and Table 5.3 (Fig. 5.1 and Fig. 5.2) respectively.

| TABLE 5.2 |
| PRODUCTIVITY AND PROFITABILITY OF PUBLIC SECTOR COMMERCIAL BANKS |

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>39.61</td>
<td>58.86</td>
<td>89.2</td>
<td>152.88</td>
<td>3389.99</td>
<td>6068.66</td>
<td>6675.52</td>
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<tr>
<td>Deposits</td>
<td>24.37</td>
<td>39.01</td>
<td>59.91</td>
<td>107.72</td>
<td>80.52</td>
<td>76.60</td>
<td>84.26</td>
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<tr>
<td>Advances</td>
<td>15.24</td>
<td>19.87</td>
<td>29.29</td>
<td>51.97</td>
<td>54.90</td>
<td>75.30</td>
<td>82.83</td>
</tr>
<tr>
<td>Profit</td>
<td>0.05</td>
<td>0.12</td>
<td>0.56</td>
<td>0.69</td>
<td>7.10</td>
<td>29.30</td>
<td>32.23</td>
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</tbody>
</table>

Source: IBA Bulletin Reports
Reserve Bank of India, Annual Reports.
Fig 5.1: PRODUCTIVITY AND PROFITABILITY OF PUBLIC SECTOR COMMERCIAL BANKS
Table 5.2 shows the public sector commercial banks productivity. The per employee productivity in case of the public sector commercial banks is worked out ₹ 39.61 crore in 1991-92, ₹ 89.20 crore in 1997-98, ₹ 152.88 crore in 2000-01, ₹ 3389.99 crore in 2005-06, ₹ 6068.66 crore in 2008-09 and ₹ 6675.52 crore in 2009-10. The figures for deposits, advances and net profit are ₹ 24.37 crore, ₹ 15.24 crore and ₹ 0.05 crore in 1991-92; ₹ 59.91 crore, ₹ 29.29 crore, ₹ 0.56 crore in 1997-98; ₹ 107.02 crore, ₹ 51.97 crore and ₹ 0.69 crore in 2000-01; ₹ 80.52 crore, ₹ 54.90 crore and ₹ 7.10 crore in 2005-06; ₹ 76.60 crore, ₹ 75.30 crore and ₹ 29.30 crore in 2008-09 and ₹ 84.26 crore, ₹ 82.83 crore and ₹ 32.23 crore in 2009-10 respectively.

The per employee productivity is steadily increased in respect of business, deposits and advances and net profit to ₹ 24.37 crore, ₹ 15.24 crore and ₹ 0.05 crore in 1991-92; ₹ 39.01 crore, ₹ 19.87 crore and ₹ 0.12 crore in 1994-95; ₹ 59.91 crore, ₹ 29.29 crore, ₹ 0.56 crore in 1997-98; ₹ 107.02 crore, ₹ 51.97 crore and ₹ 0.69 crore in 2000-01, ₹ 80.52 crore, ₹ 54.90 crore and ₹ 7.10 crore in 2005-06, ₹ 76.60 crore, ₹ 75.30 crore and ₹ 29.30 crore in 2008-09 and ₹ 84.26 crore, ₹ 82.83 crore and ₹ 32.23 crore in 2009-10 respectively.

TABLE 5.3
PRODUCTIVITY AND PROFITABILITY OF PRIVATE SECTOR COMMERCIAL BANKS

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>27.33</td>
<td>73.61</td>
<td>168.37</td>
<td>366.2</td>
<td>922.5</td>
<td>1534.9</td>
<td>1688.39</td>
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<tr>
<td>Deposits</td>
<td>17.92</td>
<td>48.14</td>
<td>111.5</td>
<td>513.47</td>
<td>74.95</td>
<td>18.1</td>
<td>19.91</td>
</tr>
<tr>
<td>Advances</td>
<td>9.41</td>
<td>25.47</td>
<td>56.86</td>
<td>98.53</td>
<td>54.75</td>
<td>19.2</td>
<td>21.12</td>
</tr>
<tr>
<td>Profit</td>
<td>0.07</td>
<td>0.65</td>
<td>1.35</td>
<td>1.49</td>
<td>33.7</td>
<td>33.9</td>
<td>37.29</td>
</tr>
</tbody>
</table>

Source: IBA Bulletin Reports  
Reserve Bank of India, Annual Reports.
Fig 5.2: PRODUCTIVITY AND PROFITABILITY OF PRIVATE SECTOR COMMERCIAL BANK


- Business
- Deposits
- Advances
- Profit

Values in crore

- 27.33  17.92  9.41  0.07
- 71.61  48.14  25.47  0.65
- 168.37  111.5  56.86  1.35
- 386.2  265.47  51.47  1.49
- 922.5  74.95  54.75  3.71
- 1534.9  38.1  97.2  35.9
- 1688.39  19.91  21.12  37.29

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Table 5.3 discloses that the private sector commercial banks’ the per employee productivity with regards to business, deposits, advances and net profit is ₹ 27.33 crore, ₹ 17.92 crore, ₹ 9.41 crore and ₹ 0.07 crore in 1991-92; ₹ 73.61 crore, ₹ 48.14 crore, ₹ 25.47 crore and ₹ 0.65 crore in 1994-95, ₹ 168.37 crore, ₹ 111.50 crore, ₹ 56.86 crore, ₹ 1.35 crore in 1997-98; ₹ 366.20 crore, ₹ 513.47 crore, ₹ 98.53 crore and ₹ 1.49 crore in 2000-01; ₹ 922.50 crore, ₹ 74.95 crore, ₹ 54.75 crore and ₹ 33.70 crore in 2005-06, ₹ 1534.90 crore, ₹ 18.10 crore, ₹ 19.20 crore and ₹ 33.90 crore in 2008-09 and ₹ 1688.39 crore, ₹ 19.91 crore, ₹ 21.12 crore and ₹ 37.29 crore in 2009-10 respectively. Form the analysis of Table 5.2 and 5.3, it is noticed that:

(a) Achieved growth is satisfactory in both public and private sector commercial banks. This progress is far better in the second phase reforms period.

(b) The public sector commercial banks which have little income in the initial study period have earned profit. This is really the effect of ‘reform’.

Data on working results of the public sector commercial banks and the private sector commercial banks is presented in Table 5.4 and Table 5.5 (Fig. 5.3 and 5.4).

Table 5.4 discloses the income of the public sector commercial banks is ₹ 27153 crore in 1991-92 which increased to ₹ 61271 crore in 1997-98; to ₹ 103499 crore in 2000-01; to ₹ 315608 crore in 2008-09 and to ₹ 347168 crore in 2009-10 while the corresponding figures for expenditure are ₹ 26677 crore, ₹ 58176 crore, ₹ 99182 crore, ₹ 281215 crore and ₹ 309336 crore respectively. The recorded income growth rate of the public sector commercial banks is accounted for ₹ 34118 crore or 125.65 percent in 1997-98 over 1991-92 and ₹ 285897 crore or 466.65 percent in 2009-10 over 1997-98 whereas the corresponding figures for expenditure are ₹ 31499 crore or 118.07 percent and ₹ 251160 crore or 431.72 respectively. An inference that could be drawn is that the income is more than cost of expenditure by ₹ 2619 crore or 7.67 percent.
percent in 1997-98 over 1991-92 i.e. first phase reforms period and ₹ 33515 or 13.75 percent in 2009-10 over 1997-98 i.e. second phase reforms period. This undoubtedly discloses that the second phase reforms have an effective impact on the working of public sector commercial banks.

**TABLE 5.4**

**WORKING RESULTS OF PUBLIC SECTOR COMMERCIAL BANKS**

(₹ in crore)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest Income</td>
<td>24756</td>
<td>37846</td>
<td>53911</td>
<td>90984</td>
<td>172274</td>
<td>273428</td>
<td>300770</td>
</tr>
<tr>
<td>(91.17)</td>
<td>(88.12)</td>
<td>(87.99)</td>
<td>(87.90)</td>
<td>(83.13)</td>
<td>(85.60)</td>
<td>(86.63)</td>
<td></td>
</tr>
<tr>
<td>Other Income</td>
<td>2397</td>
<td>5101</td>
<td>7360</td>
<td>12515</td>
<td>32498</td>
<td>42180</td>
<td>46398</td>
</tr>
<tr>
<td>(8.83)</td>
<td>(11.88)</td>
<td>(12.01)</td>
<td>(12.10)</td>
<td>(15.87)</td>
<td>(13.40)</td>
<td>(13.36)</td>
<td></td>
</tr>
<tr>
<td><strong>B. Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest paid</td>
<td>17109</td>
<td>25011</td>
<td>36339</td>
<td>61693</td>
<td>101769</td>
<td>193447</td>
<td>212792</td>
</tr>
<tr>
<td>(64.13)</td>
<td>(59.79)</td>
<td>(62.46)</td>
<td>(62.20)</td>
<td>(55.54)</td>
<td>(68.80)</td>
<td>(68.78)</td>
<td></td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>6883</td>
<td>12476</td>
<td>16035</td>
<td>28013</td>
<td>53104</td>
<td>55190</td>
<td>60709</td>
</tr>
<tr>
<td>(25.80)</td>
<td>(29.82)</td>
<td>(27.56)</td>
<td>(28.25)</td>
<td>(28.98)</td>
<td>(19.60)</td>
<td>(19.62)</td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td>2685</td>
<td>4345</td>
<td>5802</td>
<td>9476</td>
<td>28375</td>
<td>32578</td>
<td>35835</td>
</tr>
<tr>
<td>(10.07)</td>
<td>(10.39)</td>
<td>(9.97)</td>
<td>(9.55)</td>
<td>(15.48)</td>
<td>(11.60)</td>
<td>(11.58)</td>
<td></td>
</tr>
<tr>
<td><strong>C. Profit</strong></td>
<td>476</td>
<td>1115</td>
<td>3095</td>
<td>4317</td>
<td>21523</td>
<td>34394</td>
<td>37833</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress Issues Reserve Bank of India Annual Reports, IBA Reports
Figures in parentheses are percentage to total

The analysis, without doubt, exhibits that the public sector commercial banks could have higher income than expenditure resulting in an edge on higher profit position besides performing the social goal of advancing the social sectors which generally yield less revenue remaining the cost of expenditure at increasing.
Fig. 5.3: WORKING RESULTS OF PUBLIC SECTOR COMMERCIAL BANKS
The interest component in income received is accounted by ₹29155 crore or 117.76 percent in 1997-98 over 1991-92 i.e. during the first phase reforms and ₹246859 crore or 457.90 percent in 2009-10 over 1997-98 i.e. during the second phase reforms the corresponding figures for other income ₹4963 crore or 207.05 percent and ₹39038 crore or 530.40 percent respectively. While the interest paid is the major component of expenditure, which is accounted by ₹19230 crore or 112.39 percent in 1997-98 over 1991-92 i.e. during the first phase reforms and ₹176453 crore or 485.57 percent in 2009-10 over 1997-98 i.e. during the second phase reforms the corresponding figures for operating expense ₹9152 crore or 132.96 percent and ₹44674 crore or 278.60 percent respectively. The earning profit position of banking concern is very much depending upon the source of other income which is a fulcrum. Equally important to have high earning profit position is operating expenses which must to be at less.

Table 5.5 shows the working results of the private sector commercial banks. They earned an income of ₹973 crore in 1991-92, ₹3453 crore in 1994-95, ₹7381 crore in 1997-98; ₹16595 crore in 2000-01, ₹43286 crore in 2005-06, ₹103016 crore in 2008-09 and ₹113317 crore in 2009-10 while the corresponding figures in expenditure are ₹938 crore, ₹3086 crore, ₹6686 crore, ₹15433 crore, ₹38841 crore, ₹92148 crore and ₹101362 crore respectively. The recorded income is accounted for ₹6408 crore or 658.58 percent in 1997-98 over 1991-92 i.e. during the first phase reforms and ₹105936 crore or 1435.25 percent in 2009-10 over 1997-98 i.e. during the second phase reforms whereas the corresponding figures for expenditure are ₹5748 crore or 612.79 percent; and ₹94676 crore or 1416.03 percent respectively.
## TABLE 5.5
working results of private sector commercial banks
(T in crore)

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Income</td>
<td>973</td>
<td>3453</td>
<td>7381</td>
<td>16595</td>
<td>43286</td>
<td>103016</td>
<td>113317</td>
</tr>
<tr>
<td>Interest Income</td>
<td>(90.96%)</td>
<td>(86.01%)</td>
<td>(86.68%)</td>
<td>(87.35%)</td>
<td>(79.09%)</td>
<td>(82.57%)</td>
<td>(82.57%)</td>
</tr>
<tr>
<td>Interest</td>
<td>885</td>
<td>2970</td>
<td>6398</td>
<td>14496</td>
<td>34660</td>
<td>85066</td>
<td>93574</td>
</tr>
<tr>
<td>Other Income</td>
<td>(9.04%)</td>
<td>(13.99%)</td>
<td>(13.32%)</td>
<td>(12.65%)</td>
<td>(20.91%)</td>
<td>(17.42%)</td>
<td>(17.42%)</td>
</tr>
<tr>
<td>B. Expenditure</td>
<td>938</td>
<td>3086</td>
<td>6686</td>
<td>15433</td>
<td>38841</td>
<td>92148</td>
<td>101362</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(58.85%)</td>
<td>(62.57%)</td>
<td>(69.04%)</td>
<td>(69.25%)</td>
<td>(55.34%)</td>
<td>(61.81%)</td>
<td>(61.81%)</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>318</td>
<td>375</td>
<td>1423</td>
<td>3055</td>
<td>11572</td>
<td>21779</td>
<td>23956</td>
</tr>
<tr>
<td>Provisions</td>
<td>(33.90%)</td>
<td>(12.15%)</td>
<td>(21.28%)</td>
<td>(19.80%)</td>
<td>(29.79%)</td>
<td>(23.63%)</td>
<td>(23.63%)</td>
</tr>
<tr>
<td>C. Profit</td>
<td>68</td>
<td>780</td>
<td>647</td>
<td>1687</td>
<td>5771</td>
<td>13412</td>
<td>14753</td>
</tr>
<tr>
<td></td>
<td>(7.25%)</td>
<td>(25.28%)</td>
<td>(9.68%)</td>
<td>(10.93%)</td>
<td>(14.86%)</td>
<td>(14.55%)</td>
<td>(14.55%)</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress Issues
Reserve Bank of India Annual Reports, IBA Reports
Figures in parentheses are percentage to total

The interest component in income received is accounted by ₹ 5513 crore or 622.93 percent in 1997-98 over 1991-92 i.e. during the first phase reforms and ₹ 87176 crore or 1362.55 percent in 2009-10 over 1997-98 i.e. during the second phase reforms the corresponding figures for other income ₹ 895 crore or 1017.04 percent and ₹ 18760 crore or 1908.44 percent respectively. While the interest paid is the major component of expenditure, which is accounted by ₹ 4064 crore or 736.23 percent in 1997-98 over 1991-92 i.e. during the first phase reforms and ₹ 58037 crore or 1257.30 percent in
Fig 5.4: WORKING RESULTS OF PRIVATE SECTOR COMMERCIAL BANKS

Year


A. Income  Interest Income  Other Income  B. Expenditure  Interest paid  Operating Expenses  Provisions  C. Profit

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2009-10 over 1997-98 i.e. during the second phase reforms; the corresponding figures for operating expenses are ₹ 1105 crore or 347.48 percent and ₹ 22533 crore or 1583.48 percent respectively.

The analysis, without doubt, exhibits that the private sector commercial banks could have higher income than expenditure resulting in an edge on higher profit position besides performing the social goal of advancing the social sectors which generally yield less revenue remaining the cost of expenditure at increasing. Further, it is inferred that the operational performance of both the public and private sector commercial banks is satisfactory with positive trend.

**MANAGEMENT OF SPREAD-BURDEN-PROFIT**

Though earning profit is motto of the banking sector for survival and sustenance, but along the line of profit, service is an integral part of banking sector in serving various economic significance units for achieving the expected growth rate of economy. In business parlance, an enterprise is one which undertakes the operations of production goods or supply of services for wants satisfying of human beings with allowable profit. Though profit not a prime goal, but obviously need to be made the institution feasible economically and viable commercially. Equally, this is applied to banking sector. The service of banking is required to the business sector to earn its expected profit so also required the latter’s service (prompt payment of the service charges to be levied by the bank) to the former. Therefore, the service for achieving the economic goal of a nation coupled with profit is the visible vision and possible mission of the banking concern. “Only strong and viable banks will be effective in playing their defined role as per national poliy.”

Thus, profit and profitability of commercial banks entirely depends upon one or all factors of the following. The factors that improve the profit and profitability of commercial banks are:
➤ Increase in magnitude of interest income (‘I’) is due to efficiency of credit
management
➤ Increase in the magnitude of ancillary income (‘A’) is due to efficiency of
customer services
➤ Decrease in the magnitude of interest expenses (‘E’) is due to the influence in
nature of deposits-mix
➤ Decrease in the magnitude of manpower expenses (‘M’) is due to the influence
of efficiency of manpower
➤ Decrease in the magnitude of other expenses (‘O’) is due to the influence
efficiency of general bank management

The performance of operating profitability of the commercial banks with regards to
the above factors is examined with the help of the technique of (i) spread-burden-
profit and (ii) burden-coverage ratio. Symbolically, the spread-burden-profit is
expressed as:

\[ P = S - B \]

Where

\[ S = I - E \]
\[ B = M + O - A \]
\[ P = (I - E) - (M + O - A) \]
\[ P = \text{Profit} \]
\[ S = \text{Spread} \]
\[ B = \text{Burden} \]
\[ I = \text{Interest Income} \]
\[ E = \text{Interest Expenses} \]
\[ M = \text{Manpower Expenses} \]
\[ O = \text{Other Expenses} \]
\[ A = \text{Ancillary Income} \]

Also the spread-burden-profit is expressed in the form of flow chart given below:
The spread-burden-profit model identifies the interrelationship between spread, burden and profit. Spread is the excess of interest income over interest expenditure. Burden is the aggregate of manpower expenses and other operating expenses minus non-interest income. Profit is the excess of spread over burden. The commercial bank business is expected to grow over a period of time resulting in a proportionate increase in the amount of spread which in turn increases the volume of business and thereupon spread. If profit decreases, it indicates the overall operating profitability position at low level. The reason attributable for such state of affairs is that of a higher rate of increase in burden than the spread.

Dividing spread by burden provides burden-coverage ratio. If it is one, it implies the break-even position of a commercial bank. If it is more than or less than one, it indicates better or poor profitability of commercial bank. Analysis of spread-burden-profit is presented in Table 5.6 and Table 5.7 (Fig. 5.4 and Fig. 5.5) for the public sector commercial banks and the private sector commercial banks respectively.
TABLE 5.6
SPREAD-BURDEN-PROFIT OF PUBLIC SECTOR COMMERCIAL BANKS

(₹ in crore)

<table>
<thead>
<tr>
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<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Spread</td>
<td>7647</td>
<td>15572</td>
<td>29291</td>
<td>57341</td>
<td>79981</td>
<td>87979</td>
</tr>
<tr>
<td>Burden</td>
<td>7171</td>
<td>15939</td>
<td>24974</td>
<td>46438</td>
<td>58624</td>
<td>64486</td>
</tr>
<tr>
<td>Profit</td>
<td>476</td>
<td>367</td>
<td>4317</td>
<td>21523</td>
<td>34394</td>
<td>37833</td>
</tr>
<tr>
<td>Burden Coverage Ratio</td>
<td>1.07</td>
<td>0.98</td>
<td>1.17</td>
<td>1.23</td>
<td>1.36</td>
<td>1.36</td>
</tr>
</tbody>
</table>

Source: 1. Reserve Bank of India on Trend and Progress, Various Issues.
2. IBA Reports

Table 5.6 evidently shows that the public sector commercial banks in 1991-92 had a profit of ₹ 476 crore which went up to ₹ 4317 crore in 2000-01, ₹ 21523 crore in 2005-06, ₹ 34394 crore in 2008-09 and ₹ 37833 crore in 2009-10 respectively. The earning profit is certainly more during the second phase reforms period. Further, Table 5.6 discloses that the burden-coverage-ratio is more than one during the study period reflecting the working of public sector commercial banks with better profits due to higher proportionate increase in income compared to that of expenses. The prudent of management of commercial banks, no doubt, practicing the generic service resulting in an arena of profit zone; thus they are ever welcoming profit but never welcome loss and ever hate it.
Fig 5.5: SPREAD-BURDEN-PROFIT OF PUBLIC SECTOR BANKS

<table>
<thead>
<tr>
<th>Year</th>
<th>Spread</th>
<th>Burden</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-92</td>
<td>847</td>
<td>731</td>
<td></td>
</tr>
<tr>
<td>1995-96</td>
<td>1572</td>
<td>1562</td>
<td></td>
</tr>
<tr>
<td>2000-01</td>
<td>2922</td>
<td>2474</td>
<td>4815</td>
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<tr>
<td>2005-06</td>
<td>57141</td>
<td>44438</td>
<td>12522</td>
</tr>
<tr>
<td>2008-09</td>
<td>58624</td>
<td>34384</td>
<td>34384</td>
</tr>
<tr>
<td>2009-10</td>
<td>52669</td>
<td>57833</td>
<td>64809</td>
</tr>
</tbody>
</table>
Table 5.7 shows the profitability of the private sector commercial banks. They earned a profit of ₹ 35 crore in 1991-92, ₹ 557 crore in 1995-96, ₹ 1162 crore in 2000-01, ₹ 4984 crore in 2005-06, ₹ 10868 crore in 2008-09 and ₹ 11954 crore in 2009-10 respectively. One salient observation made is that they never incurred loss. Consequently the burden-coverage ratio is more than one which visualizes that the private sector commercial banks follow the principle as: Grow with good customers.

It is understood from the above analysis is that the commercial banks have earned credits in terms of managerial efficiency during the period of second-phase reforms. Still they would need to adopt a proactive approach for the benefits of tuning the defined goal in their operations. Towards this, the economic feasibility and commercial viability are the governing canons for the emerging phenomena in the context of liberalization and globalization for sustaining the vision and mission of banking sector on the one hand, and the pace progress of country’s economy on the other.
Fig 5.6: SPREAD-BURDEN-PROFIT OF PRIVATE SECTOR COMMERCIAL BANKS
REFERENCES


