CHAPTER - I
INTRODUCTION

Indian banking system today is evolving itself as a powerful instrument of planning for economic growth. Since inception of the Planned Economic Development Programmes in India (1950-51), the economic and social upliftment of the rural poor has been the major concern of the Government, planners and policy makers. Experience during the last four decades after independence in 1947 has highlighted the fact that economic growth and social justice are not contradictory but are, in fact, complementary. Planned development, envisaged through the Five Year Plans since 1950-51, has brought about a speedy transformation in the entire economic structure, more so in the Indian banking system.

It has since long been recognised that banking constitutes an important link among the various economic activities and that it has to play a direct role not only in creating the machinery needed for financing developmental activities but also in ensuring that the finance made available goes into the desired directions.¹ That is how banks have

to contribute mightily to the country's economic development. The social and economic conditions of a progressive community constantly alter and develop; and its banking system, which forms an essential part of the economic structure of the country, must continually adjust itself to the changing conditions. Thus, banking system in all Economies must respond to the changing environment.

Historical Growth of Banks:

Over the years, Indian banking system has been fairly adept at coping with changed needs of our masses. There have been consistent efforts to introduce a proper banking organisational base for rural development. From time to time, the various Committees and Working Groups have been appointed either by the Government of India or by the RBI to study and suggest measures regarding the existing system as well as proposed system. These have thrown much light on the role of the rural institutional credit system for rural socio-economic development. In tune with recommendations made by these various Committees, the Indian banking system has undergone a major and rapid structural transformation over the last four decades.

Soon after Independence, the Government proposed to take steps to nationalise the RBI after September 30, 1948 and with effect from January 1, 1949, the RBI became the State-owned Bank. Moving the Reserve Bank Nationalisation Bill, K.C. Neogy, the then Union Finance Minister, observed "the first piece of legislation to bring about our ideas of nationalisation should relate to an institution which is really the pivot of the financial system of the country and on which, to a very large extent, depends the economic well-being of the people."³

The foremost development in the Indian banking was a comprehensive banking legislation with the enactment of the Banking Regulation Act, 1949. The prime objective of the legislation was to put the commercial banking on a sound footing by strengthening this structure and organisation.⁴

All India Rural Credit Survey Committee recommended, in 1954, "the creation of one strong, integrated, State-sponsored, State-partnered commercial bank with an effective machinery of branches spread over the whole country."⁵

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pursuance of this objective, the SBI came into existence in 1955. The preamble to the SBI Act, 1955 states, "the extension of banking facilities on a large scale more particularly in the rural and semi-urban areas and the diverse other public purposes and transfer of the undertaking of Imperial Bank of India", as the main objective of establishing the SBI. Subsequently, the SBI (subsidiary banks) Act was passed in 1959 so as to enable the SBI to take over the eight State-associated banks, which were established in some former princely States as its subsidiaries.

In course of time, it was realised that the various steps taken by the Government were inadequate to attain the desired result of ensuring the use of bank funds for rapid economic growth with social justice. Hence, drastic step of nationalisation of 14 big banks, each having a deposit of Rs.50 crores or more, on July 19, 1969 was taken by the Government. Six more banks whose demand and time liabilities exceeded Rs.200 crores each as on March 14, 1980 were nationalised on April 15, 1980.

Inspite of an impressive set-up in the availability of institutional credit to rural areas, there was a widely shared view that a more determined effort was needed to speed up the flow of institutional credit especially to meet the needs of the weaker sections of the rural community. The Government of India also felt that it was necessary to establish "new institutions on the basis of attitudinal and operational ethos entirely different from those obtaining in the public sector banks."\textsuperscript{7} In view of this feeling, regionally-based and rural-oriented commercial banks popularly called RRBs came into existence on October 2, 1975. These Regional Rural Banks (RRBs) are also called as "Grameena Banks" in Kannada – the regional language of the Karnataka State.

The objectives of these banks are to cater to the target groups, namely, weaker sections, marginal farmers, agricultural labourers and village artisans.

Thus, banking industry in India has undergone significant changes after the Independence in 1947, in tune with the national priorities. These changes relate to a massive expansion of banking facilities in rural and unbanked centres, a

shift from class to mass banking, orientation of the banking policy in favour of the unprivileged sections of the community and involvement of the banks in the process of planning and development at the grass-root level.

Need for the Study:

The Regional Rural Banks, conceived as low-cost institutions, mid-way between the co-operatives and the commercial banks, locally-based and imbibing indigenous social ethos, and with weaker sections as target groups for assistance, were accepted as a part of the multi-agency approach for rural credit. Assessments of their performance indicate that the RRBs have succeeded in beaming their credit to weaker section. It was felt that this would be a model financial infrastructure for rural development which requires worth-encouraging by the bankers and planners in the field.

The progress recorded by the RRBs, in reaching the millions of people spread over the different parts of the country through the wide net-work of branches (15,000) within a span of 15 years from their inception and extending extensive assistance particularly to the neglected, weaker and unorganised sectors of the rural masses, has won much acclaim and made the Indian banking experience a unique one. However, inspite of this geographical expansion, the RRBs now-a-days have become the victims of operational inefficiency.
Further, RRBs' magnificent quantitative progress in the last one and half decades involving a marked shift from traditional 'class banking' to 'mass banking' has brought in its wake some thorny problems, which appear to throttle their growth in the forthcoming years. These banks are especially confronted with deed-seated problems like profit erosion, mounting overdues, deterioration in operational efficiency which portend to affect their operational viability and financial soundness.

It is, therefore, necessary to realistically determine how these institutions can be turned into self-sustaining financial institutions. As the rural development process gathers momentum, the rural community will also expect more of other banking services - other than the bank credit. In the long run, the interests of the weaker sections can be served effectively only by those financial institutions which would be financially and structurally sound and can respond to the changing needs of the society.

In this context, it is significant to note that productivity is the only solution to the most of the problems of these banks. Through improved productivity alone, banking becomes more viable to meet the challenges of economic growth and development of rural masses. In other words, a
compatible productivity mechanism has to be followed to monitor the day-to-day functioning of these banks.

However, before devising the productivity mechanism, we should have the knowledge of what constitutes productivity in the banking industry and what are the essential and appropriate parameters that can be taken into account without making the norms too theoretical and complex. The productivity mechanism should be capable of measuring and monitoring the operational efficiency. It should be capable of locating variations in performance and suggesting remedial measures accordingly.

Today, the banks are offering more and more services to their customers beyond the traditional banking functions of receiving deposits and making loans and the trend will no doubt continue in the future. Any modern bank in a developing economy like ours is expected, besides accepting deposits and advancing money, to generate a stream of financial services looking to the ever-changing needs and aspirations of bank clientele. The financial services are produced, delivered and consumed instantaneously

in the banking industry. Further, the banks are multi-
product firms, producing different types of depositors 
and borrowers every time. The performance of the banking 
industry is largely dependent on the performance of the 
entire economy. The banks operate in a highly controlled 
environment. Because of these peculiar characteristics 
of the banks, the concept of productivity, which is somewhat 
more precise in the industrial sector, becomes difficult to 
define in service organisations. That is why, the concept of 
productivity in banks becomes hazy.

In the light of above background, the present study 
assumes a special significance.

Review of earlier Literature:

There is dearth of literature on analysis or 
measurement of productivity in Indian Banks. Only a few 
studies have been made that too at macro level. It seems that 
the productivity movement received an impetus only after 1966 
as it was declared as "Indian Productivity Year". This was 
followed by the year 1970 which was celebrated as "Asian 
Productivity Year" with a message "prosperity through 
productivity". Then comes the year 1982 which was declared 
as the "Year of Productivity". Because of these deliberate 
efforts, we find stimulation in the literature on productivity 
in banking industry.
The first attempt to publish literature on productivity in banking industry was made by Maharashtra State India Productivity Year Committee in 1966. A seminar on productivity in banking industry was organised during Indian Productivity Year. This was the first of its kind in the whole country. This tiny book contains 10 papers presented by practical bankers in the above seminar. As it was a first attempt, much was not expected except conceptual aspect of productivity in banking industry.

As a part of celebration of the Year of Productivity, The Times Research Foundation, Bombay, launched a national essay competition on productivity in eight prime sectors of the economy. These essays have been published in the form of book titled "Selected Readings on Productivity" in 1983. In this book, under the banking sector, two essays, the first by Dr.T.N. Srivastava and Shri.A.K. Sharma and the second by Shri.V.T. Godse were included. The first essay brought out the difficulties involved in defining a measure for productivity in commercial banks. Some possible indicators and factors for increasing productivity in banks were also listed. In the second essay,

Shri V.T. Godse explained measures of productivity in banks. And the author mentioned that productivity aspect was only at the conceptualisation stage in the banking industry.

One day seminar on productivity in banks was held at Bankers' Training College, Reserve Bank of India, Bombay, on November 11, 1982. The seminar proceedings were published in 1983 by the Bankers' Training College, Bombay and edited by Dr. T.N. Srivastava - a Core Faculty of BTC. The VIII Bank Economists' Meet was held on October, 18 and 19, 1984 at Madras. The IV business session of this Meet concentrated on Productivity in Banks. The Meet emphasized the difficulty in defining the productivity, measurement aspects and tools to improve productivity. Many of those participants in the Meet were of the opinion that per staff and per branch ratios could be used for measuring productivity. But, these ratios have little practical utility.

Vipin Shah (1987) attempted to study the factors influencing costs, earnings and efficiency of banking services at branch level. He examined the relationship

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between size and costs at bank branch level. This study was confined to 141 rural and 80 urban branches of the Bank of Baroda in Baroda zone of Gujarat State. The branches were divided into four size groups, viz., very small branches, medium size branches, large branches and exceptionally large branches. The author was of the opinion that the size of a bank was an important variable affecting costs, earnings and efficiency of banking services. He concluded that the efficiency of rural branches in relation to urban branches in terms of selected parameters would support the policy of mass banking. He also suggested that activity-wise cost and efficiency studies at branch level would be helpful for improving operational efficiency of rural and urban branches.

K. Srinivasa Rao11 (1989) attempted to study the productivity in banking systematically. This study considered the productivity of the banking industry as a whole in the country. This work heavily stresses on profitability and concludes that, "it would appear from our study that social banking has become an essential ingredient of productivity, alongside conventional banking. There could be other ways of dealing with the problems." However, it was a macro study.

M.R. Vyas\(^{12}\) (1991) studied financial performance of RRBs in Rajasthan. He analysed the contribution of RRBs in implementing Government-sponsored special programmes. Then he classified the RRBs of Rajasthan on the basis of their recovery performance. The financial performance of RRBs was analysed with the help of Quick-ratio, CDR, profit to proprietors' capital ratio and working capital analysis. Finally, it was concluded that RRBs had a promising future as an effective instrument in the economic growth and upliftment of the never-cared for and down-trodden sections of Indian Society, particularly in rural areas.

Thus, the review of earlier literature relating to productivity analysis in banking industry reveals that much work has not been done on the aspect like productivity and its measurement in banks. Viewed from this angle, the present study assumes a special significance.

**The Statement of the Problem:**

The Working Group appointed by the RBI under the Chairmanship of J.C. Luther on "Productivity, Efficiency and

Profitability" in Banks (1977) observed, "while the operational costs of the banking system have increased steadily partly due to factors beyond the control of the banks managements, no systematic attempt has been made so far to adopt scientific methods to improve productivity and efficiency in the banking system."

"Despite the observations and recommendations of the Working Group referred to in earlier paragraph, it has to be admitted that productivity remained a weak spot in the banking system. What little has been done, has been limited and sporadic".13

Prof. V.T. Godse remarked in 1983, "Despite a decade of existence of institutions like the National Institute of Bank Management, the research and development work in the industry is negligible, particularly in the area of productivity. In fact, for the reasons best known to them, academicians in banks also hesitate to use the word productivity and prefer to use words like 'efficiency of operations'. The broader concept of productivity is yet to gain roots in the banking industry".14

Against this background, a need was felt by the researcher to analyse the productivity of mass-oriented rural banks by selecting the Bijapur Grameena Bank as a unit of study.

Hence, the Statement of the Problem:

"Analysis of productivity in Banks with special reference to the Bijapur Grameena Bank in Karnataka".

Objectives of the Study:

The main objectives of the study are:

1. To study growth and working of RRBs in the State in general and the Bijapur Grameena Bank in particular.
2. To evolve norms for analysing productivity in rural-oriented banks like RRBs.
3. To appraise the market-share of the Bijapur Grameena Bank in total banking business in the district.
4. To evaluate efficiency and effectiveness of branch expansion policy of the Bijapur Grameena Bank.
5. To assess the effectiveness and the role of the Bijapur Grameena Bank in mobilising small and scattered deposits from rural masses.
6. To appraise the effectiveness of the Bijapur Grameena Bank in rural lending and recovery of outstandings.
7. To appraise operational efficiency and profitability of working funds, and
8. To suggest policy measures for the efficient working of RRBs in future.

Hypotheses:

The Regional Rural Banks in our country have been originated at different places in different States mainly for catering to the requirements of the respective regions. Socio-economic environment in the midst of which each rural bank is expected to operate varies from region to region. In this context, the micro studies relating to analysis of productivity of different facets of an individual rural bank (rather than the macro studies with their focus on some selected sample rural banks) will be more useful not only to the respective regional bank but also to the planners and policy-makers in the field.

The present study is based on a single rural bank but not on some selected rural banks. For the purpose of evaluating the efficiency and effectiveness of different functional areas of the BGB management, the following hypotheses have been formulated on broader lines:

1. BGB's branch expansion is effective and innovation-oriented.
2. BGB's deposit management is effective.
3. BGB's credit management is effective.
4. Manpower in BGB is productively utilised.
5. Profitability of working funds in BGB is poor.

As the present study is not based on sampling technique, the tools and techniques, viz., intra-bank inter-period analysis (horizontal analysis) and ratio analysis, which are contributed by the field of management accounting, have been profoundly used for the purpose of throwing light on the above broad-hypotheses.

Scope of the study:

The present study covers the Bijapur Grameena Bank in Karnataka State. The study covers the period of 5 years from 1986 to 1990-91. However, a longer duration has been considered where the working of RRBs at national level and State level is examined in general.

Methodology:

The present study is primarily based on the secondary data. The data used for the study were collected from:

2. Bijapur Grameena Bank, Head office, Bijapur.

3. Annual Credit Plans for Bijapur District prepared by the Syndicate Bank (Lead Bank Section), Divisional Office, Bijapur (various issues).

4. Syndicate Bank (Lead Bank Section), Divisional Office, Bijapur.

5. Statistical tables relating to Banks, RBI, Bombay (various issues).

6. Reports on Trend and Progress of Banking in India, RBI, Bombay (various issues).

7. Statistics on RRBs, NABARD, Bombay (various issues) and,

8. Talukawise plan statistics, 1985-86, Bijapur District, Zilla Parishad, Bijapur.

The data, thus, collected have been properly classified and analysed with the help of trend analysis and ratio analysis. Technique of intra-bank and inter-period analysis has been followed to evaluate the productivity of the unit under study in respect of its different facets of bank management. The related indices and detailed methodology used for testing each hypothesis have been described in length at appropriate places in the study.

Organisation of the Study:

The present study is divided into the following chapters:
Chapter One covers introduction, historical growth of banks, need for the study, review of earlier literature, the statement of the problem, objectives of the study, hypotheses, scope of the study, methodology, organisation of the study and concepts used in the study.

Chapter Two deals with evolution and growth of RRBs in general, their role in multi-agency system, their performance highlights at national and State level.

Chapter Three provides a short profile of Bijapur district reflecting the socio-economic features of the district in order to have a broad idea about the physical and socio-economic conditions of the district, growth and working of the Bijapur Grameena Bank since its inception and the highlights of the Bijapur Grameena Bank.

Chapter Four is devoted to present the theoretical framework relating to the concept of productivity, its origin, rationale behind productivity, its measurement, improvement techniques, determinants of productivity, its significance, difficulties in defining productivity in service sectors like banking, approach and ratios followed to analyse productivity in banks.
Chapter Five aims at analysing the effectiveness of branch expansion policy of the Bijapur Grameena Bank.

Chapter Six analyses the productivity of the Bijapur Grameena Bank in terms of deposit mobilisation, deposit growth, market share and deposit mix.

Chapter Seven analyses the productivity of the Bijapur Grameena Bank in terms of credit management, its structural aspects, recovery performance and performance under Annual Action Plans.

Chapter Eight evaluates operating cost effectiveness and profitability of working funds.

The last Chapter provides the summary of the findings of the study, followed by the suggestions for improving the operational performance of the BGB in particular and the RRBs in general.

Concepts used in the Study:

2. Deposits : Aggregate of fixed deposits, savings deposits and current deposits.
3. Credit/Advances : Aggregate of agricultural credit and non-agricultural credit.

4. Rural branch : A branch located at a rural place with less than 10,000 population.

5. Semi-urban branch : A branch located at a place with more than 10,000 but less than 1 lakh population.

6. Urban branch : A branch located at a place with more than 1 lakh population.

7. Remote rural centre : A place where no bank's branch is located.

8. Single branch : The only branch opened by a bank at a particular place.

9. Rural area : A village of less than 10,000 population.

10. Semi-urban area : A town of more than 10,000 but less than 1 lakh population.

11. Urban area : A city with more than 1 lakh population.

12. Agricultural credit : Credit provided for agricultural operations.

13. Non-agricultural credit: Credit provided to small-scale and village industries, artisans, and tertiary sectors.

14. Rural credit : A part of the total credit provided to rural masses.

15. Small farmer : A cultivator owning dry land between 2.5 acres to 5.0 acres or 2.5 acres of wet land.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tr>
<td>16. Marginal farmer</td>
<td>A cultivator owning below 2.5 acres of dry land or 1.25 acres of wet land.</td>
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<td>17. Agricultural labourer</td>
<td>Landless labourer deriving income from agricultural wages.</td>
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<td>18. Priority sector</td>
<td>Agriculture and allied activities, small-scale and cottage industries, petty business, rural craftsmen, self-employed persons, etc., so far not touched by the organised institutional agencies for want of credit-worthiness.</td>
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<tr>
<td>19. Recovery</td>
<td>Total amount recovered by the bank from the borrowers during a particular period.</td>
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<td>20. Overdues</td>
<td>A part of loans outstanding which had become due for repayment but which has remained still unpaid by the borrower at the end of a particular period.</td>
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<td>21. Spread</td>
<td>It is the excess of interest income over interest expenses.</td>
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<tr>
<td>22. Burden</td>
<td>It is the aggregate of manpower expenses and other operating expenses as reduced by non-interest income.</td>
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<td>23. Manpower</td>
<td>Total bank staff.</td>
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<td>24. Manpower expenses/cost</td>
<td>Salaries, allowances, provident fund etc., incurred on bank staff.</td>
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<td>Description</td>
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<tr>
<td>25. Total income</td>
<td>Aggregate of interest income and non-interest income.</td>
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<td>26. Total expenditure</td>
<td>Aggregate of interest expenses, manpower expenses and other operating expenses.</td>
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<tr>
<td>27. Non-interest income/ Ancillary income</td>
<td>Income earned on ancillary banking services.</td>
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<tr>
<td>28. Non-interest expenses</td>
<td>Aggregate of manpower expenses and other operating expenses.</td>
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<tr>
<td>29. Working funds</td>
<td>Aggregate of share capital, Reserves and surplus, Deposits and Borrowed funds.</td>
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<tr>
<td>30. Non-performing assets/ advances</td>
<td>Loans on which interest ceases to be realised.</td>
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