Title: A Study on the Impact of Business Practices on Profitability and Cost Effectiveness of Selected Banks from Pune City.

ABSTRACT

Business today is being impacted by multiple forces and is under a tremendous pressure to perform, whether a new business is to be launched or an existing business entity is to be taken to the next level of performance implementation of sound business practices is a necessity. Financial system is an integral part of the economy the viability of the economy depends on the efficient and dynamic business practices adopted by the financial sector, therefore need arises to study the business practices followed by these financial institutions.

The research titled “A Study on the Impact of Business Practices on Profitability and Cost Effectiveness of Selected Banks from Pune City” aimed to study the business practices adopted by Scheduled Commercial Banks and Urban Co-operative Banks, as the banking system in India has undergone structural transformation under the influence of globalization, deregulation, technological advances and legal reforms which have improved the opportunities and challenges for the banking sector making them operate in a global market. At present Banking sector is seen as a vehicle for all inclusive economic growth, social responsibility and equal distribution of national resources.

Banking is a customer oriented services industry; therefore the customer is focal point and customer service differentiating factor. Banking scene is changing very fast in India with liberalization new competent players at international level has emerged; Indian Banks have to innovate on continuous basis to face the upcoming challenges in the sector. Banks are the major financial institution for the country; Banking Business Practices play a prominent role in the sustainable growth and development of the nation, best business practices will enable the Banks to achieve the following objectives:

i) Become more competitive
ii) Increase market share and develop new markets for their products and services
iii) Substantial Cost Reduction and increase operational efficiency
iv) Increase productivity of employees
v) Usage of information technology more effectively and efficiently
vi) Improving service quality and adaptability towards innovations

Key performance indicators can be used for measuring the effectiveness of business practices such as growth, profitability, productivity and revenues.

The research intended to study the business practices of Banks which have made them more profitable by bringing in structural changes, process changes, technology up gradation and systematic changes. Structural changes have enabled Banks in faster decision making, improving communication network, electronic transfer of money and proper management information systems. Process changes have brought about change in work environment, duties and responsibilities have been redefined, imparting new skills to the employees where by improving the service quality. Technology up-gradation have enabled the Banks in automation of services, internet Banking, new job assignments and computer based accounting. Systematic changes brought about improvement in services, innovations and flexibility in adapting to the changing environment needs. The research tries to focus the effect of these changes on the Banks performance and sustenance.

The research was restricted to the Banking Sector in India. The Banks selected for the study comprised of Scheduled Public Sector Banks, Private Sector Banks, Foreign Banks and Urban Co-operative Banks from the vicinity of Pune City. The study was limited to the following Business Practices of the Banks:

i) Quality of Banking Services offered to Retail Customers.

ii) Innovative Practices adopted by the Banks.

The Banking Business is dynamic in nature; there has been tremendous transformation in the Business Practices of the Banks since Nationalisation, in order to assess the effect of the business practices on the performance and viability of the Banks following major objectives formed the crucial point of the research:

i) To study the aspects of Business Practices that increases efficiency and transparency of Banking Functions.

ii) To study the various strategies followed by Banks to cater the growing competition.

iii) To identify innovative Business Practices that can increase the overall efficiency and profitability of the Banks.
Based on the above objectives of research following problem statement were identified and hypothesis were formulated.

Problem Statement I: A customer friendly Business Practices followed by the Banks have a direct impact on its profitability.

Hypothesis
- Null Hypothesis (H0): There is no significant relation between Business Practices relating to retail customers followed by the Banks and its profitability.
- Alternate Hypothesis (H1): There is a significant relation between the Business Practices relating to retail customers followed by the Banks and its profitability.

Problem Statement II: Dynamic Business Practices bring in variety of products, new culture and competition which helps in improving trade and investment.
- Null Hypothesis (H0): Dynamic Business Practices do not lead to financial prosperity
- Alternate Hypothesis (H1): Dynamic Business Practices leads to financial prosperity.

Problem Statement III: Innovative Business Practices leads to profit maximization and cost effectiveness in Banks.
- Null Hypothesis (H0): Innovative Business Practices have no direct correlation with profit maximization and cost effectiveness at Banks.
- Alternate Hypothesis (H1): Innovative Business Practices have direct correlation with profit maximization and cost effectiveness at Banks.

The research was administered on 30 Scheduled Commercial Banks and 5 Urban Co-operative Banks having branches in Pune City. Survey method was followed for the collection of primary data from the 355 retail bank customers on the service quality aspects and relating to the innovative business practices information was gathered from the 35 bank officials of the respective bank selected for the study. The Banks were selected on the basis of the presence of bank branches in Pune City and the volume of business transactions whereas retail bank customers were determined on the basis of Convenience Sampling. In
order to accomplish the research objectives and for arriving at valid conclusion following scheme of Chapterisation was outlined:

- **Chapter 1: Nature and Rationale of the Study**
  The focus of this chapter was to introduce to the area of research and the relevance of the study in the current scenario.

- **Chapter 2: Research Design**
  The Chapter discusses the sequence of activities followed by the researcher during the course of research work.

- **Chapter 3: Literature Review**
  The Chapter tries to analyze the existing facts and the view points expressed by various researchers relating to the topic of research through various secondary sources.

- **Chapter 4: Progress of Banking Sector**
  The chapter aimed to justify the reasons for development and the factors that lead to the penetration and growth of banking sector in India.

- **Chapter 5: Analysis of Financial Performance of Banks**
  The chapter reviewed the financials of the Banks and ratios were calculated to evaluate the financial performance and efficiency of the Banks.

- **Chapter 6: Assessment of Service Quality at Banks**
  The Chapter focuses on the need for good quality service at Banks. SERVQUAL scale was used to identify the gap between the customer’s expectations and perceptions about the Banking Services.

- **Chapter 7: Innovative Business Practices in the Banking Sector**
  This part of the study relates to the innovative practices adopted by the selected Banks.

- Chapter 8, 9 and 10 form the closing pages of the research comprising of Conclusions, Findings and Suggestions.

The research proved that there exists a significant relationship between the business practices and profitability of Banks as provision of best services leads to customer satisfaction and helps in customer retention and building customer loyalty which in turn will reduce the cost of acquiring the new customers and providing multiple services to the existing customers whereby adding to the profit margin of the Banks, further the changing trends in the Banking business have made the Banks more competitive and highly profitable
through product and process innovations thus all the above three null hypothesis were rejected and alternate hypothesis was accepted.

If the process of innovation continues and new technologies are introduced over time, innovative Banks can continue to earn high profits on the various new or improved products. Banks should provide innovative products and render high quality services to gain edge in the market. Usage of technology has increased substantially in the Banking Sector which has enabled Banks to process voluminous data at lower transaction cost and processing time which has helped the Banks in reducing the overhead costs. Banks should shift their focus from product centric approach to customer centric contributing towards the profits by creating value added relationship with the customers and cross selling of new products to these customers.

In Financial Services the quality of service deliverables and innovations has a pragmatic role in the sustenance of the Banks. The research serve as a basis to assess the progress made by the Banks, there lay a scope further to analyse the initiatives taken by the Banks to sustain the changing business scenario with specific reference to customer services and innovations at various levels. As Banks are striving to benchmark its services with global standards need arises to determine the factors that can place Banks at international level. The SERVQUAL Model and the Six Dimensional Service Innovation Model can be a tool for undertaking empirical survey for mapping the customer perceptions about Banking Services. Further research can be undertaken in the areas of identifying customer’s perception about Banking Services and in developing value added products to different class of customers which will render Banks to be cost effective and profitable.

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