



A STUDY ON OPERATIONAL EFFICIENCY OF PUBLIC AND PRIVATE SECTOR BANKS IN INDIA

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ABSTRACT

The Indian banking system has undergone significant transformation following financial sector reforms as laid out by Shri M.Narasimham Committee in 1991. The banking sector's performance is perceived as the replica of economic activities of the economy. The stage of development of the banking industry is a good reflection of the development of the economy. In this present study we have analysed the operational efficiency of commercial banks in India with objectives of comparative performance public sector banks and private sector banks, profitability position of different sector in relation to number of employees and challenges faced by public sector banks in Indian banking scenario. In this study the physical performances of the banks is analyzed based on its branches and enrolled permanent employee strength. The performance of the branch network is bound to have a significant impact on the bank as a whole. Some parameters like productivity, efficiency ratio etc to analyse the efficiency of different sector banks. The study is diagnostic and exploratory in nature and makes use of secondary data. The study finds and concludes that the private sector banks and SBI & its Associate banks have to improve on their branch expansion and employee strength. It is evident that the internal management and employee efficiency of nationalised banks are far better than other sectors of commercial banks. It is found that in terms of physical performances and business growth parameter of nationalized banks were at the top position. The present study has also revealed that business per employee and profit per employee is maximum in case of nationalised banks during the study period.

Keywords: Operational Efficiency, Public Sector Banks, Private Sector Banks, Productivity.

INTRODUCTION

The Indian banking industry, the backbone of the country's economy, has helped the nation survive various national and worldwide economic shocks and meltdowns. It has achieved enormous appreciation for its strength, particularly in the wake of the worldwide economic disasters, which pressed its worldwide counterparts to the edge of downfall. It is one of the healthiest performers in the world banking industry. One of the major measures of economic development and financial growth of a country has been the reliability of its banks. Soundness of the banking sector is identical with efficiency, productivity, profitability, and stability. It is important to measure the performance of the banking sector through a performance measurement system that provides an opportunity to assess the performance of Indian banks. It is a well-known fact that banking sector in India is broadly classified into three categories namely Public Sector Banks which includes Nationalised Banks and SBI (State Bank of India and associates), Private Sector Banks which includes Old Private Sector Banks and New Private Sector Banks and Foreign Banks. These banks always

compete with each other on different grounds and parameters. In this paper, the study aims to analyze the performances of scheduled commercial banks operating in India based on their efficiency, productivity & profitability.

OBJECTIVES OF THE STUDY

1. To analyze the comparative performance of SBI & its Associate banks Nationalised banks, Old Private Sector banks and New Private Sector banks.
2. To study the productivity position and business growth of different sectors commercial banks in relation to Deposits per employee, Advances per employee, Business per employee, number of employees and branches respectively.

REVIEW OF LITERATURE

Several researches have been conducted to analyse the different aspects of commercial banks in India. Some of these researches are listed below:

Saha and Ravishanker (2002) evaluated the efficiency of 25 public sector banks for the period of 1991-92 to 1994-95 and found that the efficiency of the public sector banks improved with time. But they found that the different banks were on the different levels of efficiency scale. Some banks like Oriental Bank of Commerce, Canara Bank, SBI etc were consistently efficient whereas some banks like UCO Bank, Central Bank, Union Bank were relatively less efficient.

Mukherjee, Nath and Pal (2003) attempted to analyze the technical efficiency and relative comparison of the performance of 68 SCBs using DEA technique for the period 1996-99. They found that the public sector banks were more efficient than the other types of banks. They were not only efficient as compared to other banks but also improved over the time.

Singla HK (2008), in his paper, 'financial performance of banks in India,' in ICFAI Journal of Bank Management No 7, has examined that how financial management plays a crucial role in the growth of banking. It is concerned with examining the profitability position of the selected sixteen banks of banker index for a period of six years (2001-06). The study reveals that the profitability position was reasonable during the period of study when compared with the previous years.

Dhanabhakym and Kavitha (2012) evaluated the financial performance of the six selected public sector banks in India. The selected banks performed well on the sources of growth rate and financial efficiency during the study period. The old and new private sector banks and played a vital role in the marketing of new type of deposits and advances schemes.

RESEARCH METHODOLOGY

The present study primarily based on secondary data. Data is collected from various sources like RBI, government reports and reports on banking profile, pertaining the period from 2009-10 to 2012-13.

- To compare the physical performances and business growth in terms of branch expansion, employee strength, total deposits, total advances, total business of SBI & its Associate banks, Nationalised banks, Old Private Sector banks, New Private Sector banks respectively.
- To evaluate the productivity efficiency in terms of deposit per employee, advance per employee, total business per employee of these different sectors of banks.

ANALYSIS AND INTERPRETATION

Commercial Banks Expansion

Branch networks expanded significantly leading to an increase in the banking coverage of banking services in India. The following tables depict the growth of bank branches in India

Table 1. Number of Banks in Different Sectors (Amount in numbers)

Year	SBI	NB	OPSB	NPSB	TOTAL
2009-10	16431	40526	4792	5243	66992
2010-11	19338	42977	5087	6917	74319
2011-12	20256	45641	5673	8297	79867
2012-13	21301	49734	6283	9718	87036
Mean	19331.5	44719.5	5458.75	7543.75	
SD	2093.368	3941.917	660.3143	1913.201	
CV	10.82879	8.81476	12.09644	25.36141	
%INC	29.63	22.72	31.11	85.35	

Source: Reserve Bank of India

The total numbers of commercial bank branches have increased from 66992 in 2009-10 to 87036 in 2012-13 in India. Table 1 shows that the mean of nationalised banks is more than the others i.e, 44719.5 which shows that it has the maximum number of branches but if we consider increase rate then new private sector banks have increased their branches 85.35% from 2009-10 to 2012-13 followed by old private sector banks (31.11%) and SBI & its Associate banks (29.63%). The nationalised banks have also increased their branches at a slow rate of 22.72%. The table also shows that the nationalised banks has the least variation and there is more variation for new private sector banks.

Employee Strength

The parameters, which are used to measure the efficiency of banks, should also include the performance of employees.

Table 2. Employees of Different Sector Banks (Amount in numbers)

Year	SBI	NB	OPSB	NPSB	TOTAL
2009-10	450425	460821	50998	127468	1089712
2010-11	496382	458129	55308	132533	1142352
2011-12	485041	479085	62589	185695	1212410
2012-13	511477	492229	66208	203733	1273647
Mean	485831.3	472566	58775.75	162357.3	
SD	25969.53	16077.97	6887.135	38137.25	
CV	5.345381	3.402269	11.71765	23.48971	
%INC	13.55	6.82	22.97	59.83	

Source: Reserve Bank of India

Table-2 shows the position of employees in different sector banks from period 2009-10 to 2012-13. As shown in table Employee strength is maximum in case of State Bank of India at 485831.3 followed by 472566 of Nationalised Banks and New Private Sector Banks but if we consider increase rate then new private sector banks have increased their branches 59.83% from 2009-10 to 2012-13 followed by old private sector banks (22.97%) and SBI & its Associate banks (13.55%). The table also shows that the nationalised bank has the least variation and there is more variation for new private sector banks.

Business Growth of Banks

The lending and accepting of deposits are considered as the primary business of banks. This section of the study discusses the business wise performances of the different sector banks during the study period 2009-10 to 2012-13.

Total Deposits

Deposits play a key role in commercial banking activities because the lending power of a bank and the size of its operations are determined only by the quantum of deposits.

Table 4. Deposits of Different Sector Banks (Amount in Millions)

Year	SBI	NB	OPSB	NPSB	TOTAL
2009-10	10774610	19933045	2143432	5929038	38780125
2010-11	12458625	24162668	2636438	7386018	46643749
2011-12	14050241	30533380	3158912	8586960	56329493
2012-13	16184449	35139339	3738964	10219391	65282143
Mean	13366981	27442108	2919437	8030352	
SD	2305824	6731619	685868.1	1819560	
CV	17.25015	24.53025	23.49317	22.65853	
%INC	50.21	76.28	74.44	72.36	

Source: Reserve Bank of India

From the above table it has been found that nationalized banks on an average, scored the highest deposits and it has increased from 19933045 crore in 2009-10 to 35139339 crore in 2012-13, the total deposits of nationalized banks had percent increase of 76.28

per cent. Followed by it has been observed that, old private sector banks had registered 74.44 per cent increase rate. SBI has shown least variation and more variation is shown for nationalized banks.

Total Advances

The credits supplied by sample banks are furnished in the following tables.

Table 5. Advances of Different Sector Banks (Amount in Millions)

Year	SBI	NB	OPSB	NPSB	TOTAL
2009-10	8342598	14163176	1455507	4783556	28744837
2010-11	9941536	17048800	1843776	6128966	34963078
2011-12	11519913	21531812	2300796	7363234	42715755
2012-13	13792241	25447439	2699373	87331133	129270186
Mean	10899072	19547807	2074863	26401722	
SD	2324386	4965925	541005.7	40633266	
CV	21.32645	25.404	26.07429	153.9038	
%INC	65.32	79.67	85.46	1725.65	

Source: Reserve Bank of India

The data presented in the above table infers the total advances of different sector banks during the study period of 2009-10 to 2012-13. Among the 4 sample banks considered, the total advances of new private sector banks was maximum at 26401722 crore. The total advances of NPSB had registered percent increase of 1725.65 per cent per annum. Similarly, it has been inferred that the total advances NPSB had registered highest variation.

Total Business

Total business i.e., deposits and advances were recorded in the following table.

Table 6. Total Business of Different Sector Banks (Amount in Millions)

Year	SBI	NB	OPSB	NPSB	TOTAL
2009-10	19117208	34096221	3598939	10712594	67524962
2010-11	22400161	41211468	4480214	13514984	81606827
2011-12	25570154	52065192	5459708	15950194	99045248
2012-13	29976690	60586778	6438337	18952504	115954309
Mean	24266053	46989915	4994300	14782569	
SD	4629766	11694314	1226535	3508237	
CV	19.07919	24.88686	24.5587	23.73225	
%INC	56.8	77.69	78.89	76.92	

Source: Reserve Bank of India

From the above table it has been inferred that, at the beginning of the fiscal year 2009-10 the total business of nationalized bank is found to be highest, it has increased from `34096221 crore in 2009-10 to `60586778 crore in 2012-13. The total business of old private sector banks had registered growth of 78.89 per cent between the years 2009-10 to 2012-13. Followed by it has been observed that, SBI showed least variation and nationalized banks showed high variation.

Productivity Efficiency of Banks**Total Deposits Per Employee**

This ratio reveals the deposit-collection capacity of an employee. Here, higher the deposit per employee ratio, higher the productivity per employee.

Table 7. Deposit per employee of Different Sector Banks(Amount in Millions)

Year	SBI	NB	OPSB	NPSB	TOTAL
2009-10	220.24	832.09	505.41	353.92	1911.66
2010-11	243.95	1014.01	570.83	412.93	2241.72
2011-12	265.26	1396.33	629.01	344.45	2635.05
2012-13	297.94	1559.68	700.32	374	2931.94
Mean	256.8475	1200.528	601.3925	371.325	
SD	32.99403	335.5911	83.05838	30.3498	
CV	12.84577	27.95363	13.81101	8.173379	
%INC	35.28	87.44	38.56	5.67	

Source: Reserve Bank of India

The above table clearly illustrates that, at the beginning of the financial year 2009-10, the deposit per employee ratio of nationalized bank had massively increased to 1200.528 by the end of the fiscal year 2012-13. The deposits per employee ratio this bank had registered 87.44 per cent increase rate per annum. Similarly it has been inferred that, deposits per employee ratio of old private sector bank had registered the increase percent of 38.56 per cent per annum between the years 2002-03 to 2012-13. The deposits per employee ratio of new private sector banks showed least variation and had registered 5.67 increase per cent only by the end of the financial year 2012-13.

Total Advance Per Employee

The deposits cannot be maintained unless they are advanced for productive use by the people. As this entails involvement of employee time, this also is considered a ratio to measure the productivity, "higher the ratio, higher the productivity".

Table 8. Advance per employee of Different Sector Banks(Amount in Millions)

Year	SBI	NB	OPSB	NPSB	TOTAL
2009-10	164.38	582.12	339.53	283.75	1369.78
2010-11	186.74	704.37	405.45	335.8	1632.36
2011-12	211.64	855.26	459.08	288.26	1814.24
2012-13	243.19	974.02	505.54	303.97	2026.72
Mean	201.4875	778.9425	427.4	302.945	
SD	33.84586	171.4446	71.44327	23.5556	
CV	16.798	22.00992	16.71579	7.775537	
%INC	47.94	67.32	48.9	7.13	

Source: Reserve Bank of India

It is evident from the above data analysis that, the total advances per employee ratio of nationalized bank had registered increase of 67.32 per cent and it reached maximum at 778.94 by the end of the financial year 2012-13. Subsequently it has been observed that nationalized bank had registered high variation of 22.00 and least by new private sector banks at 7.77.

Total Business Per Employee

Total business per employee ratio is the ratio of total business divided by number of employees.

Table 9. Total Business per employee of Different Sector Banks(Amount in Millions)

Year	SBI	NB	OPSB	NPSB	TOTAL
2009-10	384.62	1414.21	844.94	637.67	3281.44
2010-11	430.69	1718.38	976.28	748.73	3874.08
2011-12	476.89	2251.59	1088.09	632.71	4449.28
2012-13	541.13	2533.7	1205.86	677.97	4958.66
Mean	458.3325	1979.47	1028.793	674.27	
SD	66.82676	506.2631	154.3032	53.61833	
CV	14.58041	25.57569	14.99847	7.952056	
%INC	40.7	79.16	42.72	6.32	

Source: Reserve Bank of India

From the above empirical data analysis it has been inferred that, the business per employee ratio of nationalized banks had raised from 1414.21 in 2009-10 to 2533.7 in 2012-13, a massive growth rate. The business per employee ratio of nationalised bank has recorded 79.16 per cent increase rate per annum. Followed by, it has been observed that the total business per employee ratio of the old private sector banks had registered maximum percent increase of 42.72 per cent.

CONCLUSION

It can be concluded that the performance of nationalised banks is highly appreciable when compared to other sector banks during the years 2009-10 to 2012-13. These categories of banks make the best use of their resources to their maximum advantage. At the same time one also requires to value the public sector banks for meeting the requirements of every section of the society through their wide branch network spread across the country which can be made more profitable by adopting latest technological improvements in the system.

The nationalised banks in India have shown an increasing trend in case of number of branches. It is also an evident that their internal management and employee efficiency of nationalised banks are far better than other sectors of commercial banks. The growth rate of new private sector banks in case of number of branches are maximum followed by public sector banks and old private sector banks. The new private sector banks have also increased their employee strength at a slow rate. Maximum workers are working with SBI and its Associate banks. The present study has also revealed that business per employee, deposits per employee and advance per employee is maximum in case of nationalised banks during the study period. The present paper shows that public sector banks are lagging behind regarding various financial parameters in comparison with other sector banks. Right technology adoption and business recovery with the support of technology will be the pillars on which SBI rests in future. SBI and its Associate banks should draw examples from new generation private sector banks for leveraging its technology advancement. Hence there is a need to consider above listed challenges to bring optimize effective management in public sector banks.

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