MANAGERIAL EFFICIENCY AMONG NATIONALISED BANKS: AN ANALYSIS

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ABSTRACT

Absent of managerial efficiency the business does not have direction and control on its objectives. The improved managerial efficiency can lead to increased profits and investments through productive cycle. The present paper is to analyse the managerial efficiency of the selected nationalised banks in India. The study is used exploratory research design. Sample of the ten nationalised banks have been used and the period of the study is 2004-05 to 2013-14. The study is based on secondary data which are collected from Indian Banks Association, Reserve Bank of India, website and Indian Economy published by the Centre for Monitoring. Mean, Coefficient of Variation, Ranking and Analysis of Variance (ANOVA) techniques are used for the study. It is found that Corporation Bank has 1st rank and United Bank has 10th rank for business per employee and profit per employee; and United Bank of India has 1st rank and Bank of India has 10th rank for total advances to total deposits ratio. It is also resulted that there is a significance difference between the managerial efficiency of selected Nationalised banks. The study is suggested that Nationalised Banks need to enhance their skills mainly in marketing and sales of products/services, service operations, risk management and the overall performance.

Keywords: managerial efficiency, profits, marketing, risk management and employee.

I. INTRODUCTION

Banking system is an important constituent of the overall economic system. It plays a major role in mobilizing the nation's savings and in channelizing them into high investment priorities and better utilization of available resources. Hence, banking can better be described as the key player of the chariot of economic progress. Banking, if equated with money lending, is perhaps as old as the civilization itself. However modern banking is something really different from mere lending. It is far more sophisticated and complicated. In a developing economy, the role of banks is more formative and purposeful than in the developed one. In a developing country, where the banking habits of the people are not developed, the task of creating and spreading the banking habits and of mobilising the country's resources becomes a challenging one. It is here that banks play a crucial role because they act as a bridge between those who require finance and those who have finance. Banks have the obligation of meeting the demand of the customers promptly, paying maintain adequate liquidity and earn required profits from their activities. Banks thus are an important instrument in making more efficient use of available savings. In India, banking is an important segment of the tertiary sector. It acts as the backbone of our economic progress and prosperity. It plays the all pervasive role of a catalyst in development. Indian banking has undergone major transformation during the past three decades and has been made more socially relevant and development oriented.

Managerial efficiency is one of the factors affecting the profitability among others like expansion of banks' operation in the areas characterised by deployment of funds is non-profitable coupled with higher overhead expenses, increase in sickness in industrial units, mounting of NPAs over the years. Higher efficiency results in proportionately lower establishment cost. It also indicates that along smaller transactions a bank does higher volume of transactions. Lower efficiency increases relative operational cost and often becomes the cause of losses as intermediary returns are directly related to the efficiency. The efficiency measures the extent to which the actual input consumption exceeds the minimum input necessary to produce the actual input level. The minimum input consumption is ascertained in a manner consistent with other current knowledge of the available production technology but there are difficulties in measuring productivity in service industry like banking where quality of services assumes greater importance. Efficiency refers to an organisation's effectiveness in using all resources like Labour, financial resources, fixed assets and Premises. It indicates the relationship between output and input in any work situation. Managerial efficiency is measures the rate of output per unit of input such as man material machine money and space. It actually explains the use of factors of production employed in the organisation. Managerial efficiency determines survival and growth of the organisation. The purpose of managerial efficiency is to achieve economic growth at less economic, technical, and social cost. It is central to the development of business. The improved managerial efficiency can lead to increased profits and investments through productive cycle.

II. REVIEW OF LITERATURE

The pertinent literatures of the interrelated study are as under:
Sathye (2005) examined the impact of bank privatization on bank performance and efficiency using data of banks in India for five year period 1998- 2002. It found that the partially privatized banks showed a significant positive difference in financial performance and efficiency when compared to the fully public sector banks. It also resulted that the financial performance of banks already in the private sector is not significantly different from those that are partially privatized. The study suggested that the proposal of the Government of India to bring down its stake from the capital may further help in improving the performance and efficiency of these banks.
Al-Faraj, *et al.* (2006) investigated the performance of the Saudi commercial banking industry using DEA to evaluate the technical efficiency of Saudi banks for the year 2002 and compared with world mean efficiency scores. They revealed that the mean efficiency score of Saudi commercial banks compares very well with the world mean efficiency scores. They recommended that Saudi banks should continue their efforts of adapting new technologies and providing more services in order to sustain competitive advantages as Saudi Arabia continues to deregulate the banking industry. **Chaudhary and Sharma (2011)** attempted to analyze how efficiently Public and Private sector banks have been managing NPA. The economic reforms in India started in early nineties, but their outcome is visible now. Major changes took place in the functioning of banks in India only after liberalization, globalisation and privatisation. It found that increased competition, new information technologies and thereby declining processing costs, the erosion of product and geographic boundaries and less restrictive governmental regulations have all played a major role for public sector banks in India to forcefully compete with Private and Foreign Banks. **Malhotra, Poteau and Singh (2011)** analyzed the performance of commercial banks in India during the period 2005 to 2009. The paper also examined the behavior of profitability, cost of intermediation, efficiency, soundness of the banking system and industry concentration for public and private sector Indian commercial banks. It found that competition in the Indian banking industry has intensified. While the net interest margin has improved, cost of intermediation is actually rising and banks are responding to the increased costs with higher efficiency levels. **Soni (2012)** studied the HRM practices in commercial banks and to correlate bank's performance and HRM practices. The study also identified the HR challenges faced by the banks and while concluding the study suggested improving managerial efficiency and excellence in commercial banks which can be achieved through HRM practices. **Kaur (2012)** stated that banks play an active role in the economic development of country. Their ability to make a positive contribution in igniting the process of growth depends on the effective banking system. The study also concentrated on the profitability analysis of Public Sector Banks in India. **Desai (2013)** examined the relationship between banking

financial position in Indian economy. Now a day banking sector is playing vital role in Indian economy, but some parameter is decided for to check different method camel is one of the more popular model of compare to banks financial position in this model use different kind of ratio which is direct effect on bank outcome. It found that banking sector have facing NPA problem and it impact on bank performance and annual result. **Rao (2013)** examined the productivity, cost and profitability performance of Traditional banks Vis a Vis Modern banks for the period from 2005-2011. For the purpose of the study State Bank of India Groups, Nationalised Banks and Old Private Sector Banks been classified as traditional banks, while National Private Sector Banks and Foreign Banks have been classified as modern banks. A total number of 12 variables have been selected with a minimum of three and maximum of five in each category to examine the extent of Gap between the modern and traditional banks. The study revealed that the gap between the modern and traditional banks significantly reduced during the study period. **Arora (2014)** attempted to assess the efficiency of Indian Banking Sector. Using data envelopment analysis (DEA), the study aimed to measure the extent of technical, pure technical and scale efficiencies of the Indian banks across different ownership categories for the period 2011-12. Ten out of the 44 banks selected lie on the efficiency frontier and form the reference set for their peers. The result indicated that contribution of scale inefficiency in overall technical inefficiency has been observed to be smaller than what been observed due to managerial inefficiency (*i.e.,* pure technical inefficiency). It also observed that efficiency scores do not vary much across public sector, private sector and foreign banks. Performance of public sector and private sector banks is almost at par with respect to technical efficiency whereas in the case of foreign banks, there lays scope for improving scale efficiency. **Rahman, *et al*. (2014)** tried to find out the performance of NCBs within a period of 2008 to 2012. Profitability, productivity and associated risks to these two components are the major criteria for evaluating the performance of banks. There are four nationalized commercialized banks in Bangladesh. The study highlighted movements of banking variables as reflected in the branch expansion, deposit mobilization, deployment of credit, operational efficiency and relative risk measures. It found that the confidence of the general public, who wants to rely on these NCBs, in the soundness of the banking system, remains unimpaired and the financial strength of the banks gets increased. It recommended that put forward to move in an effective pace with regard to time covering the whole banking system, emphasize more on achieving core objectives.

Earlier researchers had not studied the managerial efficiency of the Nationalised banks. Therefore, it has been decided the existence of research gap and devote our effort to conduct a research on it.

III. OBJECTIVES AND HYPOTHESES

The main objective of the study is to analyse the managerial efficiency of the selected nationalised banks in India and sub objectives of the study are as under:

- To analyse the business per employees of the selected nationalised banks.
- To study the profit per employees of the selected nationalised banks
- To examine the total advances to total deposits of the selected nationalised banks

Hypotheses of the study

For validate the result of the study, hypothesis has been taken as Null Hypothesis.

- There is no significance difference of managerial efficiency among the selected nationalised banks (**H_{01}**).

IV. METHODOLOGY

The present study is used exploratory research design. Sample of the ten nationalised banks *i.e.*, Andra Bank (ANDRA), Bank of Baroda (BARODA), Bank of India (BOI), Canara Bank (CANRA), Corporation Bank (CORPN), Dena Bank (DENA), Indian Overseas Bank (IOB), Indian Bank (INDIAN), Union Bank (UNION), United Bank of India (UNITED) has been used and the period of the study is 2004-05 to 2013-14. The study is based on secondary data. Secondary data has been collected through the data bank on Indian Commercial banks published by the Indian Banks Association, the Statistical tables relating to Banks in India published by the Reserve Bank of India for various years, the website of the Reserve Bank of India and the various issues of Indian Economy published by the Centre for Monitoring. Mean, Coefficient of Variation, Ranking and Analysis of Variance (ANOVA) techniques are used for the study.

V. RESULTS AND DISCUSSIONS

The present section covers the results and discussion of the study which are as under:

- **Business Per Employee**

Revenue per employee is a measure of how efficiently a particular bank is utilizing its employees. Ideally, a bank wants the highest business per employee as possible, as it denotes higher productivity. In general, rising revenue per employee is a positive sign that suggests the bank is finding ways to squeeze more sales/revenues out of each of its employee. This ratio deals in measuring the productivity of human sources of the banks. It is a tool which measures the efficiency of all the employees of a bank in generating business of the bank. Total Business includes Total Deposits and Total Advances of a particular. Higher the ratio it is better for the bank and lower ratio indicates lack of efficiency of the bank. It is calculated by dividing the Total Business by Total Number of Employees.

Business per Employee = Total Business / Total Numbers of Employees

- **Profits Per Employee**

This ratio deals in measuring the surplus earned per employee. It is calculated by dividing the Profit after Tax earned by the bank by Total number of employees. Higher ratio indicates the higher efficiency of the management and vice-versa. It can be calculated as under:

Profits per Employee = Profits after Tax / Total number of employees

- **Total Advances to Total Deposits Ratio**

This measures the bank management's efficiency to convert the deposits available with the bank (except funds like equity capital etc.) into high earning advances. Total advances includes Bills purchased and Discounted, Cash Credits, Overdrafts and Loans repayable on Demand, Term Loan etc. both in India and outside India and Total Deposits consists demand deposit, saving deposits, term deposits and deposits of other banks and Total Advances includes basically the receivables. It is as follows:

Total Advances to Total Deposits Ratio = Total Advances / Total Deposits

Table 1 depicts the business per employee of selected banks ranges from 112 lakh in UNITED (2004-05) to 1963 lakh in BOI (2013-14) during the study period. On an average, business per employee is highest in CORPN i.e. 1187.2 lakh and lowest UNITED i.e. 596.1 lakh. On the basis of ranking, CORPN has 1st rank and UNITED has 10th rank. Variability (CV) in the business per employee of selected banks, it is found highest in UNITED *i.e.* 0.67 percent showing less consistency and lowest in UNION *i.e.* 0.43 percent indicating more consistency. ANOVA result found that there is no significance difference among the business per employee of selected Nationalised banks. Therefore, Null hypothesis (H_{01}) is accepted.

Table 2 indicates that profits per employee of the selected banks ranges from 0.60 lakhs (2004-05) in DENA to 12.00 lakhs (2011-12) in BARODA during the study period. On an average, profit per employee is highest in CORPN *i.e.* 7.11 lakhs and lowest in UNITED *i.e.* 2.69 lakhs. On the basis of ranking, CORPN has 1st rank and UNITED has 10th rank. Variability (CV) in profits per employee of selected banks, it is found highest in UNITED *i.e.* 0.70 percent showing less consistency and lowest in IOB *i.e.* 0.33 percent indicating more consistency. ANOVA resulted that there is a significance difference among the Profits per Employee of selected Nationalised banks. Therefore, Null hypothesis (H_{01}) is rejected.

Table 3 shows that the Total Advances to Total Deposits of the selected banks ranges from 50.93

percent (2005-06) in CANARA to 79.81 percent (2011-12) in UNION during the study period. On an average, this ratio is highest in BOI *i.e*. 72.76 percent and lowest in UNITED *i.e.* 66.14 percent. On the basis of ranking, UNITED has 1st rank and BOI has 10th rank. Variability in Total Advances to Total Deposits ratio of selected banks is found highest in CANARA *i.e.* 0.13 percent and lowest in BARODA *i.e.* 0.03 percent, which indicates more consistency. ANOVA found that there is a significance difference among the Total Advances to Total Deposits of selected Nationalised banks. Therefore, Null hypothesis (H_{01}) is rejected.

VI. CONCLUSIONS

The efficient banking sector is the fundamental requirement for smooth functioning of any economy. Overall, the management of various banks is performing well in the competitive environment of the Indian financial system. It is found that Corporation Bank has 1st rank and United Bank has 10th rank for business per employee and profit per employee; and United Bank of India has 1st rank and Bank of India has 10th rank for total advances to total deposits ratio.
It resulted that there is a significance difference between the managerial efficiency of selected Nationalised banks. It is concluded that Corporation Bank and Canara Bank has higher managerial efficiency. It is suggested that Nationalised Banks need to enhance their skills especially in marketing and sales of products/services, service operations, risk management and the overall performance and also provide the better customer services supported by superior technology and improve their market share at the cost of Banks.

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Table 1: Business per Employee Ratio

(In Lakhs)

Years	Nationalised Banks									
	IOB	BOI	DENA	ANDRA	CORPN	CANRA	INDIAN	BARODA	UNION	UNITED
2004-05	269	296	313	346	403	183	141	221	346	112
2005-06	355	381	364	427	527	224	222	384	436	141
2006-07	467	498	458	536	637	344	281	328	509	171
2007-08	583	652	576	627	839	374	488	710	620	257
2008-09	690	833	731	728	1049	545	617	914	694	585
2009-10	712	1011	827	939	1269	983	761	981	853	714
2010-11	1005	1284	1077	1165	1573	1228	930	1333	1043	860
2011-12	1176	1374	1284	1262	1712	1374	1114	1466	1070	971
2012-13	1288	1582	1431	1355	1921	1420	1301	1689	1215	1083
2013-14	1367	1963	1774	1347	1933	1438	1453	1865	1376	1067
Average	791.2	987.4	883.5	873.2	1187.2	811.3	730.8	989.1	816.2	596.1
Ranking	8	3	4	5	1	7	9	2	6	10
CV	0.50	0.56	0.56	0.45	0.49	0.65	0.63	0.59	0.43	0.67
ANOVA	*p* value=0.259									

Source: Performance Highlights of Various Banks; * Significance at the 5% level of Significance.

Table 2: Profits per Employee Ratio

(In Lakhs)

Years	Nationalised Banks									
	IOB	BOI	DENA	ANDRA	CORPN	CANRA	INDIAN	BARODA	UNION	UNITED
2004-05	2.66	0.98	0.60	3.97	3.73	2.34	1.87	1.71	2.81	1.72
2005-06	3.22	1.66	0.72	3.69	4.13	2.86	2.42	2.13	2.66	1.14
2006-07	4.04	2.71	1.99	4.14	4.79	3.06	3.65	2.70	3.25	1.53
2007-08	4.82	4.95	3.61	4.30	6.52	3.46	4.91	3.94	5.39	1.78
2008-09	5.20	7.49	4..28	4.58	7.64	4.70	6.23	6.05	6.28	1.22
2009-10	2.63	4.39	4.86	7.32	9.52	7.35	7.92	8.00	7.47	2.11
2010-11	4.16	6.20	6.15	9.00	10.92	9.76	8.88	11.00	7.50	3.48
2011-12	3.84	8.21	7.87	9.00	10.9	8.21	9.30	12.00	5.80	4.08
2012-13	1.99	6.44	7.31	9.00	9.68	6.96	8.38	10.00	6.79	2.53
2013-14	2.01	6.28	5.51	2.00	3.29	5.00	5.97	10.00	5.02	7.35
Average	3.46	4.93	4.29	5.7	7.11	5.37	5.95	6.75	5.30	2.69
Ranking	9	7	8	4	1	5	3	2	6	10
CV	0.33	0.49	0.63	0.46	0.42	0.48	0.45	0.58	0.35	0.70
ANOVA	*p* value =0.000*									

Source: Performance Highlights of Various Banks; * Significance at the 5% level of Significance.

Table 3: Total Advances to Total Deposits Ratio

(In Percent)

Years	Nationalised Banks									
	IOB	**BOI**	**DENA**	**ANDRA**	**CORPN**	**CANRA**	**INDIAN**	**BARODA**	**UNION**	**UNITED**
2004-05	56.97	67.21	56.27	63.58	69.07	69.72	64.53	70.26	72.52	75.41
2005-06	68.78	69.38	60.24	65.15	72.89	50.93	68.03	68.52	64.96	62.21
2006-07	68.46	70.85	66.10	67.28	70.71	52.20	66.98	71.81	65.22	69.33
2007-08	71.63	75.64	67.83	69.26	70.70	71.27	65.26	70.18	62.20	60.51
2008-09	74.80	75.33	67.08	74.32	65.57	77.70	70.91	74.84	69.60	64.90
2009-10	71.31	73.33	69.07	72.23	68.15	72.16	70.44	72.62	70.71	62.09
2010-11	77.01	71.30	69.82	77.52	74.39	72.27	71.12	74.87	74.58	68.73
2011-12	78.87	71.09	73.47	79.02	73.80	71.09	74.77	74.67	79.81	70.74
2012-13	79.34	75.78	67.67	79.46	71.51	68.05	74.41	69.25	78.90	68.46
2013-14	77.15	77.73	70.49	75.89	70.88	71.56	75.31	69.79	76.96	58.98
Average	72.43	72.76	66.80	72.37	70.77	67.70	70.18	71.68	71.55	66.14
Ranking	9	10	2	8	5	3	4	7	6	1
CV	0.09	0.05	0.08	0.08	0.04	0.13	0.06	0.03	0.09	0.08
ANOVA	p value =0.002*									

Source: Performance Highlights of Various Banks; * Significance at the 5% level of Significance.