

Efficiency of Scheduled Commercial Banks in India

– An Analytical Study

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INTRODUCTION

The scheduled commercial banks are supposed to play an important role in achieving the objective of economic development by providing effective institutional credit support to various regions / sectors / sections. Banking has been viewed as a catalytic agent that must develop and support not only single element of the national economy but also provide an effective link between the productive, distributive and consumption side of it.

Performance evaluation of an organization depends upon the type and the objectives lying behind it. Performance evaluation of commercial banks is going to be different from the commercial undertakings because banks, apart from qualifying economic efficiency criteria, also have to satisfy certain social obligations.

The level of efficiency of commercial banks has been studied in context of branches and employees. The branches and employees are the two important wheels on which the whole banking industry is moving. Considering the national priorities, involvement of banks in rural areas and development schemes and vast infrastructure developed in terms of branches and man power resources, it appears appropriate to calculate the efficiency of the banks in terms of branches and employees.

One set of indicators measure branch – based efficiency and another set of indicators measure employee – based efficiency. The important indicators selected to measure the efficiency of the Scheduled Commercial Banks in India with regard to branches and employees are:

SCHEDULED COMMERCIAL BANKS IN INDIA

SBI GROUP

It is the group of state banks or otherwise called as State Bank of India and its subsidiaries. The SBI group comprises of :

1. State Bank of India
2. State Bank of Bikaner and Jaipur
3. State Bank of Hyderabad
4. State Bank of Indore
5. State Bank of Mysore
6. State Bank of Patiala
7. State Bank of Saurashtra
8. State Bank of Travancore.

NATIONALISED BANK GROUP

The nationalised bank group comprises of:

1. Andhra Bank
2. Allahabad Bank
3. Bank of Baroda
4. Bank of India
5. Bank of Maharashtra
6. Canara Bank
7. Central Bank of India
8. Corporation Bank
9. Dena Bank
10. Indian Overseas Bank
11. Indian Bank
12. Oriental Bank of Commerce
13. Punjab National Bank
14. Punjab and Sind Bank
15. Syndicate Bank
16. Union Bank of India
17. United Bank of India
18. UCO Bank
19. Vijaya Bank

The SBI group and the nationalized bank group are together categorized as Public Sector Banks.

PRIVATE BANK GROUP

The list of the private banks is known as private group. It comprises of

Old Private Sector Banks

1. Bharat Overseas Bank Ltd.,
2. City Union Bank Ltd.,
3. Development Credit bank Ltd.,
4. ING Vysya Bank Ltd.,
5. The Karnataka Bank Ltd.,
6. Lord Krishna Bank Ltd.,
7. Nainital Bank Ltd.,
8. SBI Commercial and International Bank Ltd.,
9. Tamilnadu Mercantile Bank Ltd.,
10. The Bank of Rajasthan
11. The Catholic Syrian Bank Ltd.,
12. The Dhanalakshmi Bank Ltd.,
13. The Federal Bank Ltd.,
14. The Ganesh Bank of Kurundwad Ltd.,
15. The Jammu & Kashmir Bank Ltd.,
16. The Karur Vysya Bank Ltd.,
17. The Lakshmi Vilas Bank Ltd.,
18. The Ratnakar Bank Ltd.,
19. The Sangli Bank Ltd.,
20. The South Indian Bank Ltd.,
21. The United Western Bank Ltd.

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New Private Sector Banks

1. Bank of Punjab Ltd., 2. Centurion Bank Ltd., 3. HDFC Bank Ltd., 4. ICICI Bank Ltd., 5. Indusind Bank Ltd., 6. Kotak Mahindra Bank Ltd., 7. UTI Bank Ltd., 8. Yes Bank

STATEMENT OF THE PROBLEM

The Indian bank management, today, is facing a two-faced challenge to improve their profitability on the one hand and to serve the public in new ways with greater efficiency and effectiveness on the other. In the noble task of fulfilling the socio-economic responsibilities, commercial volatility of the banking should not be ignored.

Out of total expenses, an establishment expense is a major expense which is met by scheduled commercial bank; particularly public sector bank due to more number of employees. This expense should be met and this puts an impact on the efficiency of the commercial banks.

OBJECTIVES OF THE STUDY :-

The study has been undertaken with the following objectives

1. To examine the branch based efficiency of scheduled commercial banks in India.
2. To examine the employee based efficiency of scheduled commercial banks in India.

PERIOD OF THE STUDY

The study covers a period of ten financial years i.e., from 1995–96 to 2004 – 2005.

SAMPLE DESIGN

The performance of a bank can be measured by a number of indicators. Among these, efficiency plays an important role and the selections of banks are based on census method.

The data for the study has been collected mainly from the secondary source comparing various Books, Periodicals and Journals.

METHODOLOGY

Profitability is the most important and reliable indicator as it gives a broad identification of the capability of a bank to increase its earnings and it is measured by a number of factors.

The analytical frame work of the study is based on descriptive nature. The collected data was pooled together group-wise for analysis with the help of the following techniques.

Efficiency Analysis

The level of efficiency of commercial banks has been studied in context to branches and employees. The branches and employees are the two important wheels on which the whole banking industry is moving. Considering the significance and contribution, it appears to be appropriate to calculate the efficiency of the banks in terms of branches and employees.

a) Branch based Efficiency Analysis

The important indicators selected to measure the efficiency of the Scheduled Commercial Banks in India with regard to branches are :

- i) Deposits per branch ; ii) Advance per branch; iii) Net Profit per branch; iv) Spread per branch; v) Establishment Expenses per branch; vi) Total Income per branch; vii) Working Fund per branch; viii) Total Expense per branch; ix) Business per branch; x) Burden per branch

b) Employee based Efficiency Analysis

The important indicators selected to measure the efficiency of the Scheduled Commercial Banks in India with regard to employee are:

- i) Deposits per employee; ii) Advance per employee; iii) Net Profit per employee; iv) Spread per employee; v) Establishment Expenses per employee; vi) Total Income per employee; vii) Working Fund per employee; viii) Total Expense per employee; ix) Business per employee x) Burden per employee

c) Empirical Analysis of Efficiency

The analysis with regard to efficiency has been undertaken by dividing the study period of ten years into two distinct phases. The first phase will be the initial five years of study and the second phase will be last five years.

The efficiency has been analysed with M_1 and M_2 where M_1 (pay-out per employee ratio) and M_2 (Volume of business per employee ratio)

$$M_1 = \frac{\text{Total Establishment Expenses}}{\text{Total Number of Employees}}$$

$$M_2 = \frac{\text{Volume of Business}}{\text{Total Number of Employees}}$$

LIMITATIONS OF THE STUDY

1. There has been a lot of window-dressing in presenting final accounts by the commercial banks to hide the actual position. The data relating to deposits and advances, with respect to banks, shoot up at the end of the accounting year because of unscrupulous practices followed by branch manager.
2. The available data was found to be unsuitable for the analysis with the help of the tool instability index which has been avoided in the process of analysis.

DETERMINANTS OF EFFICIENCY

The meaning of efficiency is the ratio of output to input. In every industry where the efficiency is to be measured, there will be an end product and by-product almost uniform for all organisations. But the peculiar nature of the banking industry is that while the total business is the sum of deposits and advances etc. The end profit is the by-product. But here in the present thesis with a view to resolve these issues, both products and by-products are used to measure the efficiency of banks.

The level of efficiency of the commercial banks has been studied in context of branches and employees.

TABLE 1 : DEPOSITS OF SCHEDULED COMMERCIAL BANKS FOR 1996 AND 2005

(Rs. in Lakhs)

YEAR	SBI GROUP		NATIONALISED BANK GROUP		PRIVATE BANK GROUP	
	Per Employee	Per Branch	Per Employee	Per Branch	Per Employee	Per Branch
1995-96	37.02	929.26	42.53	759.96	62.12	802.63
2004-05	181.71	3638.79	191.50	2568.56	337.58	4946.11

Source: Computed from the Statistical Tables relating to banks in India

The above table reveals the position of deposits achieved by the scheduled commercial banks group-wise. It shows that although in terms of per employee and branch, the deposit of all the three groups witnessed a steady growth, the disheartening fact is that their universe contribution seems to have assertive impact on the operational working of the banks.

The deposits when analyzed per employee and per branch group-wise, the private bank groups contribution was found to be justifiable as Rs. 62.12 lakhs p.a. of deposit per employee in initial year to Rs. 337.58 lakhs p.a. in the final year and deposits per branch also from Rs. 802.63 lakhs p.a. to Rs. 4946.11 lakhs p.a. in the final year 2004-2005 whereas SBI group contribution stands to be the least as Rs. 37.02 lakhs p.a. to Rs. 181.71 lakhs p.a. and Rs. 929.26 lakhs p.a. to Rs. 3638.79 of employee and branch respectively.

TABLE 2 : ADVANCES OF SCHEDULED COMMERCIAL BANKS FOR 1996 AND 2005

(Rs. in Lakhs)

YEAR	SBI GROUP		NATIONALISED BANK GROUP		PRIVATE BANK GROUP	
	Per Employee	Per Branch	Per Employee	Per Branch	Per Employee	Per Branch
1995-96	23.71	595.37	22.33	399.12	37.66	486.62
2004-05	102.31	2048.96	110.15	1477.41	237.91	3458.73

Source: Computed from the Statistical Tables relating to banks in India

A continuous site in the volume of bank advance per branch and employee is observed from private bank group Rs. 37.66 lakhs p.a. to Rs. 237.91 lakhs p.a. in the end of the year with regard to per employee and per branch is from Rs. 486 lakhs p.a. in 2004-2005 per private bank group which is the highest among the three groups and the second highest was Rs. 2048.96 lakhs p.a. in SBI group and per employee is Rs. 110.15 lakhs in nationalized bank group.

TABLE 3 : NET PROFIT OF SCHEDULED COMMERCIAL BANKS FOR 1996 AND 2005

(Rs. in Lakhs)

YEAR	SBI GROUP		NATIONALISED BANK GROUP		PRIVATE BANK GROUP	
	Per Employee	Per Branch	Per Employee	Per Branch	Per Employee	Per Branch
1995-96	0.24	6.123	-0.19	-3.510	1.01	13.05
2004-05	2.03	40.84	2.03	27.28	3.84	56.383

Source: Computed from the Statistical Tables relating to banks in India

Profit is taken to be an important objective for survival and growth of any enterprise from the table, nationalized bank group which suffered a loss of both per employee and per branch as Rs. 0.19 lakhs p.a. and Rs. 3.510 lakhs p.a. respectively. They lose to Rs. 2.03 lakhs p.a. for per employee and Rs. 27.28 lakhs p.a. per branch which is more than SBI group whereas private bank group stood to be Rs. 3.84 lakhs p.a. and Rs. 56.38 lakhs p.a. of per employee and per branch which was the maximum contribution.

TABLE 4 : SPREAD OF SCHEDULED COMMERCIAL BANKS FOR 1996 AND 2005

(Rs. in Lakhs)

YEAR	SBI GROUP		NATIONALISED BANK GROUP		PRIVATE BANK GROUP	
	Per Employee	Per Branch	Per Employee	Per Branch	Per Employee	Per Branch
1995-96	1.89	47.57	1.62	29.04	4.13	53.43
2004-05	6.90	138.19	6.88	92.33	10.73	157.20

Source: Computed from the Statistical Tables relating to banks in India

Spread plays on all important roles in determining the profitability of banks. The table reveals that the spread per employee and per branch reigns in private bank group as compared to the other two groups. SBI groups contributes to be the second as Rs. 1.62 lakhs p.a. and Rs. 29.04 lakhs p.a. of per employee and branch to Rs. 6.88 lakhs p.a. and 92.33 lacs p.a. respectively whereas private bank group is Rs. 10.73 and Rs. 157.20 lakhs p.a. in the final year of study, which was the highest.

TABLE 5 : ESTABLISHMENT EXPENSES OF SCHEDULED COMMERCIAL BANKS FOR 1996 AND 2005

(Rs. in Lakhs)

YEAR	SBI GROUP		NATIONALISED BANK GROUP		PRIVATE BANK GROUP	
	Per Employee	Per Branch	Per Employee	Per Branch	Per Employee	Per Branch
1995-96	1.30	32.82	1.17	21.05	1.11	14.46
2004-05	3.24	65.07	3.31	44.45	3.13	45.92

Source : Computed from the Statistical Tables relating to banks in India

Right from the beginning of the study period, establishment expenses per branch and per employee have continued to be more when compared to the other two groups. This is an interrelated concept with business. The SBI group was Rs. 1.30 lakhs p.a. and Rs. 32.82 lakhs p.a. in the final year with respect to per employee and per branch. Whereas private bank group was Rs. 1.11 lakhs p.a. and Rs. 14.46 lakhs p.a. to Rs. 3.13 lakhs p.a. and Rs. 45.92 lakhs p.a. in the final year of study which indicates that this group is enjoying the economies of scale on account of their growing business.

TABLE 6 : TOTAL INCOME OF SCHEDULED COMMERCIAL BANKS FOR 1996 AND 2005

(Rs. in Lakhs)

YEAR	SBI GROUP		NATIONALISED BANK GROUP		PRIVATE BANK GROUP	
	Per Employee	Per Branch	Per Employee	Per Branch	Per Employee	Per Branch
1995-96	6.24	156.72	5.71	102.07	1.08	13.98
2004-05	19.22	385.06	18.29	245.31	3.50	51.35

Source : Computed from the Statistical Tables relating to banks in India

From the above table it reveals that Income per employee for SBI contributes Rs. 6.24 lakhs p.a. in the initial period to Rs. 19.22 lakhs p.a. whereas private bank group was Rs. 1.08 lakhs p.a. to Rs. 3.50 lakhs p.a. When income per branch is analysed it was found that again that SBI group stood first. The private bank group for per branch was Rs. 13.98 lakhs p.a. to Rs. 51.35 lakhs p.a. which was least whereas SBI group was Rs. 385.06 lakhs p.a. which was the greatest and the nationalised bank group was Rs. 245.31 lakhs p.a.

TABLE 7 : WORKING FUND OF SCHEDULED COMMERCIAL BANKS FOR 1996 AND 2005

(Rs. in Lakhs)

YEAR	SBI GROUP		NATIONALISED BANK GROUP		PRIVATE BANK GROUP	
	Per Employee	Per Branch	Per Employee	Per Branch	Per Employee	Per Branch
1995-96	56.70	1423	55.07	984	78.16	1009
2004-05	225.34	4512	223.14	2992	677.10	9920

Source : Computed from the Statistical Tables relating to banks in India

The table reveals that working fund per employee was Rs. 56.70 lakhs p.a. in SBI group whereas private bank group was Rs. 78.16 lakhs p.a. which was the maximum and at the end of the period of study, it rose to Rs. 677.10 lakhs p.a. and Rs. 225.34 lakhs p.a. in SBI group. In per branch, SBI group was the maximum in the initial period as Rs. 1423 lakhs p.a. and it rose to Rs. 9920 lakhs p.a. in the final year of study with regard to private bank group which was the maximum and nearly two times of SBI group.

TABLE 8 : TOTAL EXPENDITURE OF SCHEDULED COMMERCIAL BANKS FOR 1996 AND 2005

(Rs. in Lakhs)

YEAR	SBI GROUP		NATIONALISED GROUP		PRIVATE GROUP	
	Per Employee	Per Branch	Per Employee	Per Branch	Per Employee	Per Branch
1995-96	6.00	150.60	5.90	105.58	8.09	104.56
2004-05	13.74	275.26	13.36	179.23	26.77	392.24

Source : Computed from the Statistical Tables relating to banks in India

The table reveals that expenditure per employee and per branch rose to be high due to targeted branch programmes, coming up of non-viable branches, over staffing, use of outdated work technology etc., The study reveals that expense per employee rose from Rs. 6.00 lakhs p.a. to Rs. 13.74 lakhs p.a. in SBI group whereas in private bank group it was Rs. 8.09 lakhs p.a. in initial year to Rs. 26.77 lakhs p.a. and for per branch it was Rs. 104.56 lakhs p.a. to Rs. 392.24 lakhs p.a. which was the highest whereas SBI group was Rs. 150.60 lakhs p.a. in initial period to Rs. 275.56 lakhs p.a. the second highest.

TABLE 9 : BUSINESS OF SCHEDULED COMMERCIAL BANKS FOR 1996 AND 2005

(Rs. in Lakhs)

YEAR	SBI GROUP		NATIONALISED BANK GROUP		PRIVATE BANK GROUP	
	Per Employee	Per Branch	Per Employee	Per Branch	Per Employee	Per Branch
1995-96	60.74	1524.64	64.87	1159.08	99.78	1289.25
2004-05	284.03	5687.75	301.65	4045.97	575.50	8431.85

Source : Computed from the Statistical Tables relating to banks in India

The table reveals that business per employee and per branch shows the maximum contribution in private bank group due to sharpening their edge and are poised to capture an increasingly large market share of banking business. The private bank group contributes per employee as Rs. 99.78 lakhs p.a. to Rs. 575.50 lakhs p.a. whereas nationalised bank group stands second as Rs. 64.87 lakhs p.a. to Rs. 301.65 lakhs p.a. But the position changed as business per branch for SBI group contributed the second as Rs. 5687.75 and nationalised bank as Rs. 8431.85 lakhs p.a. in private bank group which is the highest.

TABLE 10 : BURDEN OF SCHEDULED COMMERCIAL BANKS FOR 1996 AND 2005

(Rs. in Lakhs)

YEAR	SBI GROUP		NATIONALISED BANK GROUP		PRIVATE BANK GROUP	
	Per Employee	Per Branch	Per Employee	Per Branch	Per Employee	Per Branch
1995-96	0.70	17.67	0.99	17.79	0.60	7.78
2004-05	1.41	28.38	1.82	24.50	-2.45	-35.95

Source: Computed from the Statistical Tables relating to banks in India

From the above table, it can be inferred that private bank group stands to be justifiable both in case of per employee and per branch. In the initial year of study, burden per employee was Rs. 0.70 lakhs p.a. in SBI group and Rs. 0.99 lakhs p.a. in nationalised bank group and the least was Rs. 0.60 lakhs p.a. which was favourable and justifiable for private bank group and the burden has increased for SBI and nationalised bank group whereas for private bank group it was favourable for the last three years as it shows a negative indication of Rs. -35.95 lakhs p.a. in the final year of study.

EFFICIENCY OF SCHEDULED COMMERCIAL BANKS IN INDIA

TABLE 11 : DEPOSIT PER EMPLOYEE AND PER BRANCH

(Rs. in Lakhs)

YEAR	SBI GROUP		NATIONALISED BANK GROUP		PRIVATE BANK GROUP	
	Per Employee	Per Branch	Per Employee	Per Branch	Per Employee	Per Branch
1995-96	37.02	929.26	42.53	759.96	62.12	802.63
1996-97	43.24	1064.80	49.52	872.14	82.20	1040.38
1997-98	54.36	1301.96	63.67	1076.63	109.20	1355.65
1998-99	68.55	1641.48	74.06	1284.65	137.55	1856.37
1999-2000	81.21	1900.96	86.19	1466.35	175.99	2342.76
2000-01	107.75	2300.92	107.81	1670.56	202.28	2678.69
2001-02	123.59	2582.74	130.67	1883.29	231.80	3190.34
2002-03	138.96	2849.7	145.94	2011.87	273.27	3475.04
2003-04	163.73	3140.98	171.30	2303.96	327.28	4245.20
2004-05	181.71	3638.79	191.50	2568.56	337.58	4946.11

Source : Computed from the Statistical Tables relating to banks in India

The table shows that deposit per employee in all the groups namely SBI group, nationalised bank group, private bank group have shown a steady increase and also deposit per employee stood more in private bank group than compared to other two groups. The SBI group is Rs. 37.02 lakhs p.a. in initial period but whereas private bank group is double of the former i.e. Rs. 62.12 lakhs p.a. during the period of study.

When deposit per branch is taken, it is observed that out of the three groups, SBI groups show the highest of Rs. 929.26 lakhs p.a. in the initial period. But during the end of period of study, the private bank group shows the highest rate of increase i.e., Rs. 4946.11 lakhs p.a. and SBI group is Rs. 3638.79 lakhs p.a. only. It is observed that deposit per employee and branch has taken full swing from 1998-1999 onwards.

TABLE 12 : ADVANCE PER EMPLOYEE AND PER BRANCH

(Rs. in Lakhs)

YEAR	SBI GROUP		NATIONALISED BANK GROUP		PRIVATE BANK GROUP	
	Per Employee	Per Branch	Per Employee	Per Branch	Per Employee	Per Branch
1995-96	23.71	595.37	22.33	399.12	37.66	486.62
1996-97	25.43	626.23	23.82	419.56	47.06	595.67
1997-98	30.55	731.71	28.86	488.05	55.55	689.13
1998-99	33.89	811.62	32.29	577.5	68.16	920.18
1999-2000	40.96	958.17	40.28	685.38	86.67	1153.84
2000-01	51.92	1109.16	52.40	807.48	100.73	1333.95
2001-02	57.92	1210.45	66.77	962.40	160.16	2204.38
2002-03	67.23	1378.83	76.38	1053.01	184.80	2350.09
2003-04	83.41	1600.02	88.94	1196.23	208.93	2710.00
2004-05	102.31	2048.96	110.15	1477.41	237.91	3458.73

Source : Computed from the Statistical Tables relating to banks in India

One of the important indicators of measuring efficiency based in the banks is credit deployment per employee. The table reveals that advance per employee registered from Rs. 37.6 lakhs p.a. in 1995-1996 private bank group to Rs. 237.9 lakhs p.a. in 2004-2005 (which is greatest). Out of the three groups analysed, the private bank group reveals an increased rate and also a higher rate of Rs. 37.6 lakhs p.a. in initial period to Rs. 237.9 lakhs p.a. in the last period of study and it is nearly a double of SBI and nationalised bank group.

When taking into account advance per branch, out of the three groups, private bank group contributes more when compared to the other two groups i.e. Rs. 486.62 lakhs p.a. in the year 1995-1996 to Rs. 3458.73 lakhs p.a. in 2004-2005.

TABLE 13 : PROFIT PER EMPLOYEE AND PER BRANCH

(Rs. in Lakhs)

YEAR	SBI GROUP		NATIONALISED BANK GROUP		PRIVATE BANK GROUP	
	Per Employee	Per Branch	Per Employee	Per Branch	Per Employee	Per Branch
1995-96	0.24	6.123	-0.19	-3.510	1.01	13.05
1996-97	0.51	12.614	0.25	4.414	1.08	13.76
1997-98	0.75	18.08	0.45	7.726	1.15	14.34
1998-99	0.45	10.97	0.31	5.502	2.01	27.21
1999-2000	0.84	19.87	0.20	7.429	1.85	24.71
2000-01	0.76	16.39	0.37	6.394	1.69	22.42
2001-02	1.21	25.37	1.02	14.79	2.43	33.49
2002-03	1.60	32.88	1.65	22.75	4.44	56.52
2003-04	2.12	40.72	2.37	31.192	5.39	70.003
2004-05	2.03	40.84	2.03	27.28	3.84	56.383

Source : Computed from the Statistical Tables relating to banks in India

Deregulation has opened up new opportunities for the whole banking industry, but at the same time the pressure of competition has led to narrowing the spreads, consolidation and restructuring of banks which has further affected the overall profit making of the banks.

It is documented from the table that the profit per branch in the nationalised bank group rose from a loss of Rs. 3.51 lakhs p.a. to a profit of Rs. 27.28 lakhs p.a. but however the growth of profit is from Rs. 6.12 lakhs p.a. to Rs. 40.84 lakhs p.a. in SBI group and Rs. 13.05 lakhs p.a. to Rs. 56.38 lakhs p.a. in private bank group. The table also reveals that the growing of profit with all the groups are fluctuating in nature. When profit per employee is analysed, the private bank group stood to be high which rose from Rs. 1.01 lakhs p.a. to Rs. 3.84 lakhs p.a. which made a real jump. This is because the initial trauma of reforms was almost over and income had started picking up.

The table further reveals that in nationalized bank, during the initial period of study, the profit per employee was loss of Rs. 0.19 lakhs p.a. to a profit of Rs. 2.03 lakhs p.a. On the other hand, SBI group accounts to Rs. 6.12 lakhs p.a. in the initial year to Rs. 40.84 lakhs p.a. which was higher than nationalised bank group.

Thus the profit per employee or branch among all the groups showed an increasing trend yet it does not exhibit any consistent increasing trend. This is because of capital accounts liberalization that has accompanied financial liberalization and the private bank group started spending heavily on hi-tech banking, affecting its rate of profits. From the table, the group-wise analysis reveals that the spread for the above groups with regard to Branch for private bank group is Rs. 53.43 lakhs p.a. to Rs. 157.20 lakhs p.a. in the final year of study. With regard to SBI group, it rose from Rs. 47.57 lakhs p.a. to Rs. 138.19 lakhs p.a. which is very next to private bank group and the least was the nationalised bank group as Rs. 29.04 lakhs p.a. to Rs. 92.33 lakhs p.a.

TABLE 14 : SPREAD PER EMPLOYEE AND PER BRANCH

(Rs. in Lakhs)

YEAR	SBI GROUP		NATIONALISED BANK GROUP		PRIVATE BANK GROUP	
	Per Employee	Per Branch	Per Employee	Per Branch	Per Employee	Per Branch
1995-96	1.89	47.57	1.62	29.04	4.13	53.43
1996-97	2.17	53.66	1.81	31.97	2.86	36.26
1997-98	2.28	54.78	2.06	34.86	3.22	40.02
1998-99	2.54	60.95	2.39	41.51	3.56	48.06
1999-2000	2.94	68.90	2.65	45.10	4.66	62.07
2000-01	3.83	81.96	3.58	55.47	5.63	74.57
2001-02	4.29	89.67	4.10	59.10	5.80	79.85
2002-03	4.85	99.56	5.02	69.23	8.12	103.36
2003-04	5.88	112.90	6.07	81.76	10.39	134.80
2004-05	6.90	138.19	6.88	92.33	10.73	157.20

Source : Computed from the Statistical Tables relating to banks in India

The table also reveals that Spread per employee rose from Rs. 4.13 lakhs p.a. to Rs. 10.73 lakhs p.a. in private bank group and SBI group is Rs. 1.89 lakhs p.a. to Rs. 6.90 lakhs p.a. in the final year of study and the nationalised bank group is the least as Rs. 1.62 lakhs p.a. to Rs. 6.88 lacs p.a.

Thus, the table reveals that private bank group has contributed in a justifiable manner both in case of employee and branch. It is due to their efficient managerial policies, diversification, operations etc.

TABLE 15 : ESTABLISHMENT EXPENSES PER EMPLOYEE AND PER BRANCH

(Rs. in Lakhs)

YEAR	SBI GROUP		NATIONALISED BANK GROUP		PRIVATE BANK GROUP	
	Per Employee	Per Branch	Per Employee	Per Branch	Per Employee	Per Branch
1995-96	1.30	32.82	1.17	21.05	1.11	14.46
1996-97	1.33	32.88	1.26	22.23	1.20	15.26
1997-98	1.46	35.03	1.41	23.90	1.34	16.75
1998-99	1.71	41.11	1.65	28.75	1.67	22.53
1999-2000	1.87	43.95	1.87	31.91	1.88	25.14
2000-01	2.70	57.76	2.58	40.11	1.90	25.20
2001-02	2.37	49.73	2.60	37.56	2.20	24.21
2002-03	2.63	54.04	2.77	38.19	2.96	28.86
2003-04	3.15	60.60	3.03	40.82	3.33	43.30
2004-05	3.24	65.07	3.31	44.45	3.13	45.92

Source : Computed from the Statistical Tables relating to banks in India

Establishment expenses are explained in terms of branches and the results do not appear to be that rosy. However, when establishment expenses per branch itself is not a sufficient ground to criticize the performance of a bank. It has to be justified in context of the business carried by a bank. If establishment expenses are increasing at higher rate than the rate at which business of branch is growing, it definitely needs introspective.

Right from the beginning, establishment expenses per branch in the SBI group has continued to be more as compared to other group. Even at the end of the period of study, relative difference between the groups increased even further. The table reveals that establishment expenses per branch were Rs. 32.82 lakhs p.a. and Rs. 65.07 lakhs p.a. for SBI group which was the highest. But their business did not rise so steep when compared to established expenses. So the comparisons to business per branch of the SBI group, their establishment expenses are not fully justified.

It is depicted from the table that the establishment expenses per employee stood up a steady increase in all the three groups. The SBI group rose from Rs. 1.30 lakhs p.a. to Rs. 3.24 lakhs p.a. which was the highest among the groups. A detailed group-wise analysis suggests that all groups registered a lower growth rate. In case of private bank group, it was least as from Rs. 1.11 lakhs p.a. to Rs. 3.13 lakhs p.a. and the very next was nationalised bank group where its value was Rs. 1.17 lakhs p.a. to Rs. 3.31 lakhs p.a. and the highest was the SBI group.

As compared to business and establishment expenses of branch and employee, the private bank group have been enjoying economics of scale in establishment expenses on account of their growing business.

The analysis revealed that in the initial period of study Income per branch was Rs. 156.72 lakhs p.a. For SBI group it was highest among the groups and Rs. 13.98 lakhs p.a. for private sector which was the least. In the final year of study, SBI branch rose upto Rs. 385.06 lakhs p.a. and Rs. 51.35 lakhs p.a. for private bank group which was the least. It is also inferred from the table that Income per employee which stood at Rs. 6.24 lakhs p.a. in the year 1995–1996 raised to Rs. 19.22 lakhs p.a. with regard to SBI group. In private bank group it was Rs. 1.08 lakhs p.a. in the initial year and it was Rs. 4.12 lakhs p.a. in 2003–2004 and it resulted in declining stage of Rs. 3.50 lakhs p.a. The analysis further revealed that in all groups there was a decrease in Income per employee for the year 2004 and 2005.

TABLE 16 : TOTAL INCOME PER EMPLOYEE AND PER BRANCH

(Rs. in Lakhs)

YEAR	SBI GROUP		NATIONALISED BANK GROUP		PRIVATE GROUP	
	Per Employee	Per Branch	Per Employee	Per Branch	Per Employee	Per Branch
1995-96	6.24	156.72	5.71	102.07	1.08	13.98
1996-97	7.14	175.82	6.58	116.06	1.20	15.23
1997-98	7.78	186.52	7.61	128.77	1.49	18.53
1998-99	9.17	219.69	8.78	152.30	1.83	24.73
1999-2000	9.82	230.04	10.19	173.45	2.18	29.14
2000-01	13.59	290.38	12.63	195.72	2.45	32.52
2001-02	15.75	329.30	15.33	221.06	2.84	39.19
2002-03	17.36	356.12	16.88	232.73	4.15	52.52
2003-04	19.62	376.50	18.50	248.94	4.12	53.52
2004-05	19.22	385.06	18.29	245.31	3.50	51.35

Source : Computed from the Statistical Tables relating to banks in India

The growing level of NPA's and market recession has further added fuel to the fire by adversely affecting the incomes of the banks. Further, on account of the growing competition among the banks not only the overall has been hit, but their income also.

TABLE 17 : WORKING FUND PER EMPLOYEE AND PER BRANCH

(Rs. in Lakhs)

YEAR	SBI GROUP		NATIONALISED BANK GROUP		PRIVATE BANK GROUP	
	Per Employee	Per Branch	Per Employee	Per Branch	Per Employee	Per Branch
1995-96	56.70	1423	55.07	984	78.16	1009
1996-97	62.69	1543	61.03	1074	98.56	1247
1997-98	72.91	1746	74.08	1252	127.23	1579
1998-99	89.35	2139	85.90	1490	165.32	2231
1999-2000	106.60	2495	99.31	1689	211.20	2811
2000-01	139.08	2971	123.48	1913	241.81	3202
2001-02	158.17	3305	149.44	2153	366.20	5040
2002-03	175.74	3603	167.83	2313	695.01	8837
2003-04	207.77	3985	198.97	2676	712.40	9240
2004-05	225.34	4512	223.14	2992	677.10	9920

Source : Computed from the Statistical Tables relating to banks in India

One of the objectives of the reforms is to make the banking system more self supportive in nature. The level of working funds in a bank denotes the extent of security and the amount of money available for recycling in the economy. Growth of working funds is driven by the growth of deposits, borrowings and other liabilities.

However, the overall working funds, when analysed in terms of branches, the SBI group stood to be the highest of Rs. 1423 lakhs p.a. in the initial period but at the end of the period of study it was Rs. 9920 lakhs p.a. in private bank group which was double of SBI group and it was nearly three times of nationalised bank group. It further reveals that the increase was very steep in private bank group from Rs. 1009 lakhs p.a. to Rs. 9920 lakhs p.a. whereas a slow increase in SBI group.

Working funds per employee has shown an increasing trend and in case of private bank group it rose from Rs. 78.16 lakhs p.a. to Rs. 677.10 lakhs p.a. in the period of study, However, all the groups shows an increasing trend, private bank group is nearly ten-fold increased when compared to initial period of study, When SBI group and nationalised bank group are analysed it was found to move in the same trend but not steep increase like the private bank group. The higher working fund in the private bank group, both as per employee and as per branch indicate their improved financial strength.

TABLE 18 : TOTAL EXPENSES PER EMPLOYEE AND PER BRANCH

(Rs. in Lakhs)

YEAR	SBI GROUP		NATIONALISED BANK GROUP		PRIVATE BANK GROUP	
	Per Employee	Per Branch	Per Employee	Per Branch	Per Employee	Per Branch
1995-96	6.00	150.60	5.90	105.58	8.09	104.56
1996-97	6.62	163.21	6.330	111.64	10.95	138.58
1997-98	7.03	168.44	7.15	121.05	13.59	168.79
1998-99	8.71	208.72	8.46	146.80	17.20	232.20
1999-2000	9.93	232.42	9.75	166.02	20.03	266.72
2000-01	11.61	248.04	11.04	181.70	20.34	269.44
2001-02	12.68	265.82	12.59	186.36	22.14	304.82
2002-03	13.37	274.28	12.96	178.68	30.73	417.08
2003-04	14.19	272.28	13.07	175.85	32.79	398.63
2004-05	13.74	275.26	13.36	179.23	26.77	392.24

Source : Computed from the Statistical Tables relating to banks in India

One of the important objectives of financial sector reforms of all the three bank groups is to be more competitive and to increase the level of profitability in them. In this direction, it is important that the banks should make efforts to control the growing expenditure.

Expenditure per employee stood at Rs. 6.00 lakhs p.a. to Rs. 13.74 lakhs p.a. for SBI group. Whereas Rs. 8.09 lakhs p.a. in private bank group which is highest and it remains highest throughout the study period. The least was nationalised bank group and it remains least throughout.

The table also reveals that the expenditure per branch is at a very high rate in the private bank groups. This means that there are some other than “employees factor” explaining the hike in expenditure. These banks with a view to expand their business operations have started providing a number of new incentives and facilities to their clients on account intensified competition. They have been focusing more on quality customer service by providing online services, full security arrangements system to safeguard against fraud hackers, e-banking, lot of supervisors and auditing of e-banking etc., thus the private bank group rises from Rs. 104.56 lakhs p.a. to Rs. 392.44 lakhs p.a. at the end of the period of study, highest among the group and the next was Rs. 150.60 lakhs p.a. to Rs. 275.26 lakhs p.a. in SBI group and the least was Rs. 105.58 lakhs p.a. to Rs. 179.23 lakhs p.a. in nationalised bank group

TABLE 19 : BUSINESS PER EMPLOYEE AND PER BRANCH

(Rs. in Lakhs)

YEAR	SBI GROUP		NATIONALISED BANK GROUP		PRIVATE BANK GROUP	
	Per Employee	Per Branch	Per Employee	Per Branch	Per Employee	Per Branch
1995-96	60.74	1524.6	64.87	1159.08	99.78	1289.25
1996-97	68.67	1691.04	73.34	1291.71	129.27	1636.06
1997-98	84.92	2033.6	92.54	1564.68	164.71	2044.79
1998-99	102.44	2453.11	107.35	1862.16	205.73	2776.55
1999-2000	122.18	2859.6	126.48	2151.73	262.67	3496.61
2000-01	159.67	3411.08	159.89	2477.04	303.01	4012.65
2001-02	181.51	3793.20	197.43	2845.69	391.96	5394.72
2002-03	206.20	4228.53	222.32	3064.88	458.08	5825.13
2003-04	247.17	4741.01	260.24	3500.20	536.21	6955.21
2004-05	284.03	5687.75	301.65	4045.97	575.50	8431.85

Source : Computed from the Statistical Tables relating to banks in India

The scheduled commercial banks in the last ten years have continued on fund raising business. As a result, business per branch of these groups rose from 1524.64 lakhs p.a. which is the highest in SBI group among the groups. SBI group, on account of its large branch network and also being government treasurers continue to rank very high with respect to business per branch. But, however, in the year 1997-1998 the business per branch in private bank group was Rs. 2044.79 p.a., which was highest of private bank group among the groups. And at the end of the study private bank group was Rs. 8431.85 lakhs p.a. which is double of 4045.97 lakhs p.a. for nationalised bank group.

The business per employee in the private bank group, shot up from Rs. 99.78 lakhs p.a. in the initial period of study whereas Rs. 60.74 lakhs p.a. which is the least for SBI group. At group-wise, analysis reveals that private bank groups rose to Rs. 575.50 lakhs p.a. due to its customer oriented approach and good performance in deposit mobilization came in prominence as one of the progressive banks. It introduced some innovative loan schemes and special consumer loan scheme which helped its business per employee to register. However the nationalised bank group was Rs. 301.65 p.a. and Rs. 284.03 lakhs p.a. in 2004-2005, in that order.

TABLE 20 : BURDEN PER EMPLOYEE AND PER BRANCH

(Rs. in Lakhs)

YEAR	SBI GROUP		NATIONALISED BANK GROUP		PRIVATE BANK GROUP	
	Per Employee	Per Branch	Per Employee	Per Branch	Per Employee	Per Branch
1995-96	0.70	17.67	0.99	17.79	0.60	7.78
1996-97	0.81	19.98	1.04	18.41	0.77	9.72
1997-98	0.80	19.29	1.07	18.23	0.26	3.25
1998-99	1.09	26.16	1.34	23.26	1.13	15.28
1999-2000	1.09	25.59	1.35	23.07	0.38	5.17
2000-01	1.85	39.63	1.99	30.90	1.41	18.75
2001-02	1.22	25.52	1.35	19.59	-0.53	-7.30
2002-03	0.86	17.73	1.10	15.18	-1.93	-24.54
2003-04	0.45	8.68	0.65	8.87	-0.25	-3.33
2004-05	1.41	28.38	1.82	24.50	-2.45	-35.95

Source : Computed from the Statistical Tables relating to banks in India

A perusal of the table reveals that the burden was less in private bank group and the very next is SBI group and finally the nationalised bank group, both in case of branch and employees.

When Burden per branch is analysed the private bank group is found to be in favourable position where in the initial year it was Rs. 7.78 lakhs p.a. to a negative indication of Rs. 35.95 lakhs p.a. which is more justifiable. When Burden per employee is taken into consideration the least was Rs. 0.60 lakhs p.a. to a negative indication of Rs. 2.45 which is more justifiable. The next comes the SBI group where the initial period of study it was Rs.17.67 lakhs p.a. to Rs. 28.38 lakhs p.a. whereas the nationalised bank group was 17.79 lakhs p.a. and it rose to 24.50 lakhs p.a. In case of burden per employee, the SBI group was Rs. 0.70 lakhs p.a. to Rs. 1.41 lakhs p.a. and the nationalised bank group was Rs. 0.99 lakhs p.a. to Rs. 1.82 lakhs p.a. Thus the table reveals that private bank group is more justifiable as because of its less burden. This is so because these groups concentrate more on deposit and also done to more mobilization of deposits and also their high on account of their active involvement.

There can be a number of reasons for group variations like the extent of overdraft facility varies from one bank to another and thus affecting the spread. Similarly, the credit and deposit structure and the degree of vigilance exercised in the sanctioning of loans by different banks too affect the above.

FINDINGS

The following are the findings made by the researcher.

EFFICIENCY OF SCHEDULED COMMERCIAL BANKS IN INDIA

In order to analyse the efficiency of scheduled commercial bank in India, the analysis is concerned with employees and branches.

EMPLOYEE AND BRANCH BASED EFFICIENCY

The important inputs or the parameters is analysed with regard to employee and branches. They are Deposits, advances, net profit, spread, establishment expense, total income, working fund, total expense, business and burden. These variables as such can't be compared due to the size of the banks and time period of operation. The efficiency can be measured in a better way if it is at a small unit level i.e. employee and branch.

In the present study, deposit, advance, profit, spread, working fund, total expense, business, burden with regard to employee registered a higher growth rate in the private bank group. With regard to employee, the above said indicator recorded a higher growth rate.

Thus, deposit per employee and branch recorded Rs. 337.58 lakhs p.a. and Rs. 4946.11 lakhs p.a. for private bank group followed by the nationalised bank group and the least was the SBI group in both cases. In case of advances, the private bank group registered as Rs. 237.91 lakhs p.a. and 3458.73 lakhs for employee and per branch p.a. respectively pushing back nationalised bank group to second place with regard to per employee and per branch. In case of profit, the private bank group recorded Rs. 56.383 lakhs p.a. per branch and Rs. 3.84 lakhs p.a. per employee, the highest leaving behind the SBI group as second and the least as nationalised bank group.

Spread, the difference of interest earned and interest paid found to be the maximum in private bank groups as Rs. 157.20 lakhs p.a. per branch and per employee as Rs. 10.73 lakhs p.a. leaving the least as nationalised bank group to Rs. 92.33 lakhs p.a. and Rs. 6.88 lakhs p.a. with regard to per branch and per employee respectively. With regard to working fund per employee, the private bank group was Rs. 677.10 lakhs p.a. and Rs. 9920 lakhs p.a. in per branch which was the highest, pushing behind to the least as Rs. 223.14 lakhs p.a. and Rs. 2992 lakhs p.a. per employee and per branch in nationalised bank group respectively.

The analysis also revealed that the total expenses were found to be Rs. 26.77 lakhs p.a. and Rs. 392.24 lakhs p.a. with per employee and per branch respectively for private bank which was the highest leaving behind to the least the nationalised bank group. Even the burden, which eats the profit of the business was found to be justifiable in private bank group and in case of business it shows the highest as Rs. 575.50 lakhs p.a. and Rs. 8431.85 lakhs p.a. with regard to per employee and per branch respectively.

In contrast, the establishment expense and total income, SBI group recorded the highest leaving to the least the private bank group. Thus total income recorded was Rs. 19.22 lakhs p.a. and Rs. 385.06 lakhs p.a. with per employee and per branch respectively whereas the private bank group was the least as Rs. 3.50 lakhs p.a. and Rs.51.35 lakhs p.a. with per employee and per branch respectively. Thus establishment expense with regard to employee was found to be the highest in nationalised bank group whereas the least in per employee as Rs. 3.13 lakhs p.a. in private bank group and in per branch nationalised bank group stands to be the least.

From the analysis, it can be concluded that out of the three bank groups, the private bank group has contributed in a justifiable manner. The important indicators to measure the efficiency of the business are deposits, advance, profit, working fund. Volume of business is found to be peak in private bank group. Interestingly, the establishment expense which reduces the profit is found to be less in private bank group because of its economies of scale.

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It has to be noted that the Indian market is structurally suited for leveraging shortages rather effectively. Added to this is the information asymmetry among various class of consumers as well as between consumers, on the one hand, and producers and consumers, on the other.

Most of all, countries have experienced significant real exchange rate appreciation over the last year or two. India has been managing this complexity relatively successfully within the context of high economic growth, high credit growth, a reasonable degree of price stability and most importantly maintenance of financial stability.

A higher Rupee value vis-à-vis the dollar would mean lower purchase price of commodities in Rupee terms. The Indian economy has undergone significant changes in the past decade and a half. With increased linkages to the global economy, it cannot duck the negatives of globalization.

Quite the contrary, it needs to come with appropriate policy responses for the same, which cannot be of the 1960s vintage. Allowing Rupee to appreciate is surely one of them. The time for a rethink on our exchange rate policy to tackle inflation is now.

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SUGGESTIONS

Commercial banks in India are considered to be one of the instruments for achieving the twin goals of higher growth rate and distributive justice. To achieve these national objectives, provision of adequate institutional credit to the weakest of the weaker sections of the society is an important input. Even the banking policy of the government has placed thrust on diverting the flow of credit to the weaker sections of the population under various poverty alleviation programmes such as Differential Rate of Interest Scheme (DRI), Integrated Rural Development Programme (IRDP), Self-Employment Scheme for Educated Unemployed Youth (SEEUY) and Self Employment Programme for Urban Poor (SEPUP) etc.

After nationalization, public sector banks have increased their lending to priority sector to achieve the various targets and sub-targets laid down for the purpose. With an objective of reaching the larger sections of the population. Commercial banks in India have followed an avowed policy of massive branch expansion. More particularly with the advent of the social control measures and the subsequent nationalisation of major commercial banks, our public sector banks started opening their branches in rural areas located in relatively less developed regions of the country on a massive scale.

CONCLUSION

The empirical analysis of this study discloses the relationship among the earning factors and expense factors which are controllable and non-controllable by the bank itself, enriches the scope of the study. This study is especially useful for policymakers, bankers, researchers as it provides adequate information about the determinants of the bank earnings and profit. The banking sector as well as the Reserve Bank of India and the Government of India in future can use the findings of the study for better financial management of the banking sector.

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