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# Managerial Productivity of Nationalised Banks: A Review (During the period 2000-2011)

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## I. INTRODUCTION

Productivity is one of the factors affecting the profitability among others like expansion of banks' operation in the areas characterisied 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 productivity results in proportionately lower establishment cost. It also indicates that along smaller transactions a bank does higher volume of transactions. Lower productivity increases relative operational cost and often becomes the cause of losses as intermediary returns are directly related to the productivity.

*The productivity 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 (Diwan, 1997) but there are difficulties in measuring productivity in service industry like banking where quality of services assumes greater importance.

Productivity 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 (Monga, 1992). Productivity is an efficiency index that 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.

Productivity determines survival and growth of the organisation. The objective of productivity is to achieve economic growth at less economic, technical, and social cost. It is central to the development of business. Without productivity measurement the business does not have direction and control on its objectives. The improved productivity can lead to increased profits and investments through productive cycle.

## II. DATA BASE AND METHODOLOGY

The data was collected for the period 2000-2001to 2010-11. The various sources of data were: 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 .For the period 2000-01 the data was annualized.

The Nationalised banks of India as per the Working Group set up by RBI in consultation with Government of India and M.S. Verma as its head, former chairman of SBI, stand grouped in five categories:

Category I: Oriental Bank of Commerce
Category II: Bank of Baroda, Canara Bank, Panjab National Bank, Corporation Bank
Category III: Andhra Bank, Bank of India, Bank of Maharastra, Dena Bank, Syndicate Bank,
Category IV: Allahabad Bank, Central Bank of India, Indian Overseas Bank, Punjab & Sind Bank, Union Bank of India, VIJAYA Bank
Category V: Indian Bank, United Bank, United Commercial Bank

For analysis purposes this categorization has been maintained.

## III. HYPOTHESES

H1 The Management productivity of Category I Banks is higher than the other categories of the nationalised banks of India.

## IV. MANAGEMENT PRODUCTIVITY

This parameter is used to evaluate management quality so as to assign premium to better managed banks and discount poorly managed ones.The following ratios were considered under this parameter:

1. Credit/Deposit ratio :
   This ratio indicates the total advances as a proportion of total deposits.It shows the aggressiveness of the managementto improve by higher lending operations.
2. Return on Average Net Worth :
   This ratio indicates the return on shareholders' funds.It should reasonably be above the cost of capital to warrant ploughing back of profits. The ratio is very important from the point of view of valuation of shares. Average net worth is the simple average of opening and closing balances of net-worth.

For calculating trends,the straight-line method of least square of trend analysis was used.

Formula: $Yt = a + bX$

where

Yt is used to designate the trend values to distinguish them from actual 'Y' values, 'a' is the intercept and 'b' represents the slope of trend line. X represents the time. In order to determine the values of constants 'a' and 'b', the following two equations were solved:

$$\sum Y = Na + b\sum X \quad \text{...(i)}$$

$$\sum XY = a\sum X + b\sum X^2 \quad \text{...(ii)}$$

where

N represents the number of years

Polystat and XL-Statsoft wares besides MS EXCEL for Windows 2007werealso extensively used to find out various statistics.

## V. MANAGERIAL PRODUCTIVITY RATIOS

**Table 1. Managerial Productivity of Nationalised Banks of India (Category-wise) Cat: I to VCredit to Deposit.**

| Year as on March 31 | Cat: I | | Cat: II | | Cat: III | | Cat: IV | | Cat: V | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Ratio | Trend | Ratio | Trend | Ratio | Trend | Ratio | Trend | Ratio | Trend |
| 2001 | 44.88 | 47.34 | 50.01 | 50.51 | 48.33 | 48.61 | 46.63 | 44.27 | 40.46 | 39.22 |
| 2002 | 49.7 | 50.04 | 54.47 | 53.11 | 52.16 | 51.31 | 46.95 | 47.27 | 42.62 | 42.55 |
| 2003 | 52.59 | 52.75 | 54.46 | 55.72 | 53.60 | 54.00 | 48.34 | 50.26 | 43.73 | 45.89 |
| 2004 | 55.17 | 55.45 | 54.39 | 58.32 | 52.98 | 56.69 | 48.90 | 53.25 | 44.65 | 49.22 |
| 2005 | 52.87 | 58.15 | 60.61 | 60.93 | 58.23 | 59.39 | 53.20 | 56.25 | 51.21 | 52.55 |
| 2006 | 66.89 | 60.85 | 66.80 | 63.53 | 64.80 | 62.08 | 61.88 | 59.24 | 58.90 | 55.89 |
| 2007 | 68.97 | 63.56 | 68.98 | 66.14 | 67.50 | 64.77 | 66.64 | 62.23 | 64.59 | 59.22 |
| 2008 | 70.08 | 66.26 | 70.57 | 68.75 | 70.03 | 67.47 | 69.93 | 65.22 | 64.50 | 62.56 |
| 2009 | 69.64 | 68.96 | 71.94 | 71.35 | 70.54 | 70.16 | 69.13 | 68.22 | 68.12 | 65.89 |
| 2010 | 69.63 | 71.66 | 71.93 | 73.96 | 71.11 | 72.85 | 67.91 | 71.21 | 66.64 | 69.23 |
| 2011 | 68.97 | 74.36 | 74.73 | 76.56 | 73.58 | 75.55 | 72.13 | 74.20 | 69.35 | 72.56 |

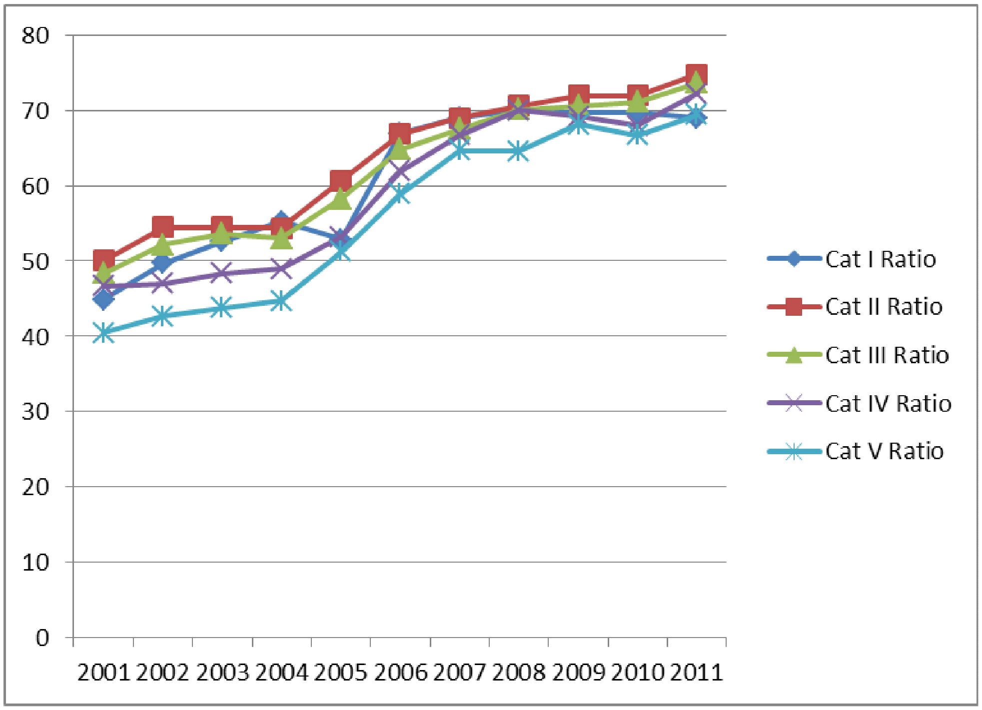


**Fig. 1**. Credit to Deposit Ratio.

Table 1 shows the compound growth rate, average and coefficient of variation of management productivity ratios of nationalised banks of India. The compound growth rate of credit/Deposit ratio has been for all the banks around 10.4%. Table 1 indicates the managerial productivity ratios in regard to Credits to Deposits of the nationalised banks operating in India for the study period (2001-2011). For all the category of banks this ratio has been rising continuously. For Category I Bank it rose from 44.9% in 2001 to 70.08 in 2008 and since then it is hovering around 69% in 2011. For Category II Banks, it rose from 50.01% in 2001 to 74.73 in 2011. Similar situation is observed for category III and IV banks. However, for category V in 2010 this ratio fell to 66.6%, but it was at par with category I bank in 2011.

**Table 2. Managerial Productivity of Nationalised Banks of India (Category-wise) Cat: I to VNet Profit to Net Worth.**

| Year as on March 31 | Cat: I | | Cat: II | | Cat: III | | Cat: IV | | Cat: V | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Ratio | Trend | Ratio | Trend | Ratio | Trend | Ratio | Trend | Ratio | Trend |
| 2001 | 13.1 | 19.66 | 13.78 | 15.92 | 13.13 | 19.96 | 6.99 | 14.22 | 3.90 | 7.86 |
| 2002 | 19.79 | 18.78 | 16.83 | 16.19 | 16.11 | 15.98 | 12.75 | 14.48 | 4.27 | 8.71 |
| 2003 | 21.66 | 17.90 | 20.15 | 16.46 | 23.21 | 16.09 | 17.03 | 14.73 | 12.15 | 9.56 |
| 2004 | 21.89 | 17.02 | 21.17 | 16.73 | 20.74 | 16.21 | 21.18 | 14.99 | 15.96 | 10.42 |
| 2005 | 24.83 | 16.14 | 15.11 | 17.00 | 12.38 | 16.33 | 19.82 | 15.24 | 12.98 | 11.27 |
| 2006 | 10.78 | 15.26 | 14.47 | 17.27 | 11.69 | 16.44 | 13.80 | 15.50 | 13.14 | 12.13 |
| 2007 | 10.37 | 14.38 | 13.65 | 17.54 | 16.98 | 16.56 | 17.41 | 15.75 | 14.24 | 12.98 |
| 2008 | 6.12 | 13.50 | 15.48 | 17.80 | 18.95 | 16.67 | 17.41 | 16.01 | 15.20 | 13.84 |
| 2009 | 12.03 | 12.62 | 18.40 | 18.07 | 18.56 | 16.79 | 14.80 | 16.26 | 12.51 | 14.69 |
| 2010 | 13.77 | 11.74 | 20.72 | 18.34 | 17.09 | 16.90 | 15.83 | 16.52 | 15.50 | 15.55 |
| 2011 | 13.54 | 10.86 | 20.19 | 18.61 | 14.74 | 17.02 | 13.46 | 16.77 | 13.55 | 16.40 |

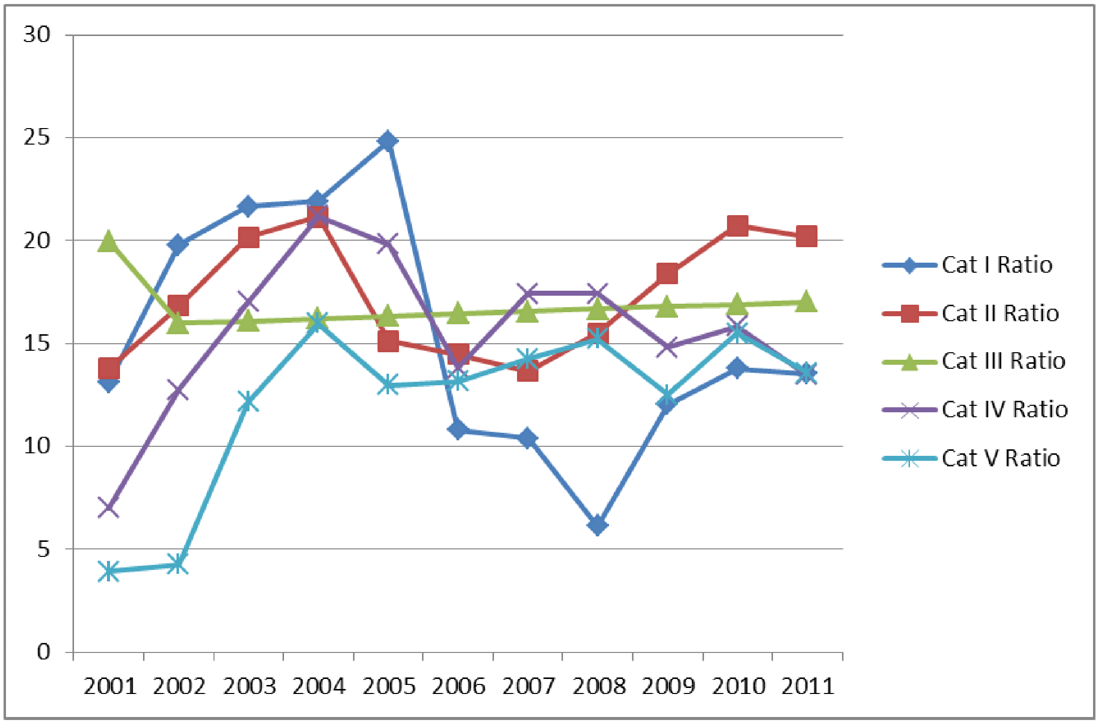


**Fig. 2.** Net Profits to Net Worth.

Table 2 indicates the managerial productivity ratios in regard to Return on net Worth of the nationalised banks operating in India during 2001-2011.The average return on net worth for first three category banks has been around 10% , and for category IV and category V banks it was 10.62% and 11.20% respectively. Inmost of the cases, the return on Net Worth ratio has been rising till 2004. For Category I Bank, the return on net worth ratio increased from 13.1% in 2001 to 24.83% in 2005 and came down to just 6.12% in 2008 and at present it is settled at 13.54%. The fall in ratio in 2008 may be due to the widening of the capital base of the bank.

**Table 3. (i) Managerial Productivity of Nationalised Banks of India (Category-wise) Cat: I to III.**

| Managerial Item | Cat: I | | | Cat: II | | | Cat: III | | |
|---|---|---|---|---|---|---|---|---|---|
| | C gr | Average | C.V. | C gr | Average | C.V. | C gr | Average | C.V. |
| Net Profit to Net Worth | 10.03 | 15.26 | 38.48 | 10.35 | 17.27 | 20.64 | 10.11 | 16.65 | 39.10 |
| Credit to Deposit | 10.4 | 60.85 | 16.03 | 10.37 | 63.54 | 14.70 | 10.39 | 62.08 | 15.71 |

**Table No. 3 (ii)**
**Managerial Productivity of Nationalised Banks of India**
**(Category-wise) Cat :( I, IV & V)**

| Managerial Item | Cat: I | | | Cat: IV | | | Cat: V | | |
|---|---|---|---|---|---|---|---|---|---|
| | C gr | Average | C.V. | C gr | Average | C.V. | C gr | Average | C.V. |
| Net Profit to Net Worth | 10.03 | 15.26 | 38.48 | 10.62 | 14.76 | 46.07 | 11.20 | 12.13 | 50.45 |
| Credit to Deposit | 10.4 | 60.85 | 16.03 | 10.30 | 58.53 | 18.76 | 10.50 | 55.89 | 21.35 |

Table 3(i) and 3(ii) give the summarised picture of the managerial productivity of the nationalised banks. In almost all the banks of category I, IV and V in 2011 the Net Profit to Net Worth ratio is hovering around 13.5% with 11% and 16% coefficient of variation respectively. There is better situation for Category II and Category III banks; in 2011 this ratio ranges between 17% and 19% with 14% coefficient of variation.) The Compound Growth Rate of Credit to Depositratio for all the category of banks is hovering around 10.4% with overall average of 61% and 63% for First three category banks with C.V. of around 16% and for the last two categories it ranges between 55.9% and 68.5% with C.V.of 18.6% for Category IV banks and 21.6% for category V Banks. The managerial productivity of category IV and V banks needs to be improved further. Category II and III Banks are performing in tune with Category I Bank. Overall, the management of various banks is performing well in the competitive environment of the Indian financial system.

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