Journal of Advances and Scholarly Researches in Allied Education
Vol. 17, Issue No. 2, October-2020, ISSN 2230-7540

Strategic Management Principles and Commercial Banks in India: A Study

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Abstract - The financial sector is considered to be the vital component of an economy. Financial institutions play a distinctive role in verifying the transfer of this essential resource from its point of origin to the sectors of the economy with the greatest potential for growth. The function holds a distinctive importance in developing nations owing to the restricted funding sources and notable variability in project returns. The matter is exacerbated by the nascent state of the capital markets, impeding the ability of savers to engage in direct investments in high-yielding enterprises. The present study posits that the sustainable growth of the banking sector in India and the prevention of periodic spells of nonperforming assets can only be achieved through private ownership of banks. While it is possible in theory to restructure Public Sector Banks (PSBs) while maintaining government ownership, the bureaucratic system in India has not yet accomplished this and is improbable to achieve it in the future. Hence, it is imperative to focus on advocating for the privatization of Public Sector Banks (PSBs) and delineating the feasible pathways leading to it. Thus, this is the objective that has been established for the present investigation.

Keywords - Public Sector Banks (PSBs), Financial Institutions, Strategic Management Principles, Economy, Privatization

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INTRODUCTION

The agricultural sector plays a significant role in the Indian economy. India's rural areas are home to a significant majority of its population, with a proportion exceeding 70%. These regions are widely acknowledged as being the most prominent economic driver of the country. In India, there exists a collaboration between the public and private sectors with the aim of promoting economic growth [1]. The Indian economy exhibits a notable level of effective collaboration between the public and private sectors. Since the Finance Minister initially committed to comprehensive modifications in 1991, the circumstances have undergone significant transformation. Successive governments assumed the responsibility of enhancing the economy, and each administration achieved notable progress in this regard. The emergence of the service sector as a noteworthy contributor to the Gross Domestic Product (GDP) served as an added motivation for the implementation of these reforms. The Indian economy and GDP have experienced significant effects over the course of a decade, with the government of India anticipating further accelerated growth in the future [2].

Throughout history, people have participated in economic transactions and have often relied on financial intermediaries to facilitate these activities. Historically, moneylenders would convene in a circular formation on benches to distribute funds to borrowers for the purpose of investing in their entrepreneurial ventures. The inception of the banking concept occurred at this location. As per the Banking Regulation Act enacted in 1949, the activity of Banking is defined as the process of receiving money from the general public for the purpose of lending or investing, which can be withdrawn on demand in the form of checks, draughts, or orders [3]. The aforementioned delineation can be located within the purview of the Banking Regulation Act. Over time, banks have chosen to provide a diverse array of services collectively referred to as Ancillary Services, and this definition accurately conveys the meaning of the term. The aforementioned services can be observed in the subsequent instances: Due to the fierce competition among financial institutions, these entities were obligated to provide these services to maintain their existing clientele and attract new patrons [4].

Competent leadership is responsible for formulating tactics to govern the daily activities of an entity and to ascertain the means by which it will achieve its objectives. These strategies will be employed to guide the organization's approach

towards achieving its objectives. Without a well-defined strategy, it is unfeasible to formulate a coherent course of action that can effectively achieve the predetermined objectives [5]. The formulation and execution of a strategic plan for an organisation are two essential components of managerial duties. A proficient manager ought to possess a rational strategic blueprint and a proficient implementation tactic. A well-designed strategy that is effectively implemented is a reliable approach for attaining financial objectives in the realm of commerce. The effectiveness of a company's management is evaluated based on the successful integration of strategy formulation and implementation, as per the established criteria. This is conducted to ascertain the efficacy of the company's management [6].

The emergence of novel players, including Fintech and TechFin, and innovative tools such as Digital Finance, RobotAdvisory, Blockchain, Platform Finance, and PeerFinance, has prompted a global reevaluation of the financial strategic landscape. This reassessment is driven by various factors, including the significance of ecosystems, the rapidly evolving regulatory framework, emerging challenges such as sustainability, the millennial challenge, and digital transformation, as well as increasing macro uncertainties such as financial instability [7]. The venue facilitates a platform for executives and specialists operating in the financial domain to convene, deliberate on their experiential insights, and strive towards accommodating the swiftly evolving financial landscape. Furthermore, it provides recommendations for converting strategic threats into opportunities that are both feasible and sustainable over an extended period.

The impetus behind this drive is derived from a diverse range of obstacles and prospects, a selection of which is delineated here for your perusal [8]:

- Major impediments that impact the organization's capacity to generate a financial gain.
- There exist significant prospects for enhancing one's earnings.
- The prospect of additional advancement in the field of risk management.
- Untapped Cost-Effectiveness Enhancement Prospects for Future Utilization
- Provision of Additional Resources to the Most Successful Companies.

Scenario after independence and before liberalization:

During the time period in question, the primary areas of focus were economic reforms and sectoral adjustments. According to the perspective of the governing structure, reforms entail giving priority to the economic growth of all sectors, which will enhance domestic commerce and act as a catalyst for international exchange. Enhancing export trade was a primary objective for advancing the economy to a higher level, with the aim of ameliorating the exchange rate, augmenting currency reserves, regulating inflation, and establishing an appropriate interest rate, among other factors. At this juncture, India's commercial and corporate domains were liberalised to foreign direct investment [9].

Liberalization and Indian Economy

Following the liberalisation policy, the Indian economy underwent a significant transformation. The government of India provided incentives to promote the establishment of foreign financial institutions and corporations within the country. Throughout their tenure, they implemented a multitude of novel policies that propelled the economy in various directions [10]. The reforms were primarily centred on liberalisation, globalisation, and privatisation. Consequently, there was a rise in the quantity of licenced enterprises, the country received foreign direct investment with open arms, and a laissez-faire economic system was instituted. During this period, supplementary measures were introduced with the aim of attracting institutional investors from abroad to invest capital in diverse sectors. The Gross Domestic Product experienced a significant surge due to the implementation of novel economic strategies and reforms [11].

Due to various changes in the economy, the service industry has gained more significance than any other sector, including agriculture. The service sector accounts for over 60% of India's gross domestic product. India's economy ranks seventh globally and has experienced significant growth of 6% to 7% in recent times. The Indian banking system is predominantly comprised of government banks (PSBs), which hold more than 70% of the total deposits. The PSBs, which consist of 21 PSU banks, 26 private banks, 43 international banks, and 56 national rural banks, have undergone a strategy to infuse Rs2, 11 trillion of capital into their operations. This strategy has now reached its final stage. The remaining amount of Rs 76,000 crore is facilitated through budget allocations and market finance, while the sale of recapitalization obligations accounts for the remaining Rs 1.35 trillion [12].

METHODOLOGY

- The Longitudinal Research Design was employed by the researcher, wherein the study units were assessed repeatedly throughout the duration of the investigation. In this context, we examine the direct and indirect impacts of the selected variables. The present panel data analysis considered a total of twenty Public Sector Banks, spanning the time period from 1991-1992 to 2020-2021 [13].

- The dataset utilized in the study comprises of Performance, CAR, EPS, TA, ROA, ROCE, and RONW metrics obtained from the 20 Public Sector Banks during the period spanning from Financial Year (FY) 1991–92 to Financial Year (FY) 2020–21.
- The present study employs a sampling technique that draws upon data generated by the data generation processes of 20 Public Sector Banks. The data pertains to specified variables and covers the period spanning from 1991-92 to 2020-21 [14].
- The sources of data comprise of reports from the Reserve Bank of India (RBI), Centre for Monitoring Indian Economy (CMIE), Money Control, and financial reports of the banks.
- An analysis was conducted on the panel data of twenty public sector banks, covering the period from 1993-1994 to 2017-2018, with a focus on eight predetermined variables. The predominant analytical approach employed was panel data regression, which incorporated mediation effects. A regression model was utilized to impute missing values in order to preserve a balanced panel. The balanced panel regression analysis was utilized to maintain uniformity of the cross-sectional IDs (Banks) in the study. An exploratory analysis of time-series data was conducted to gain insight into the recurring patterns and trends in Banks' Performance, CAR, EPS, TA, ROA, ROCE, and RONW [15].
- The proposed models were estimated using two widely used econometric techniques, namely the Fixed Effects Model and the Random Effects Model, based on the observable trends and patterns. Upon conducting the OLS regression analysis on the given data, we shall employ the Hausman Specification Test to ascertain the suitability of either the Random Effects or Fixed Model effect. Once the Fixed Effects/Random Effects Model has been chosen, it is necessary to verify the assumptions of stationarity, normality, autocorrelation, and heteroscedasticity [16].
- The Heteroskedasticity and Autocorrelation Consistent (HAC) procedure was employed to estimate regression coefficients. In cases where the aforementioned conditions were not satisfied, the Newey-West method was utilised. The technique described above was implemented on the dataset in the research utilising the econometric software GRETL [17].

RESULTS

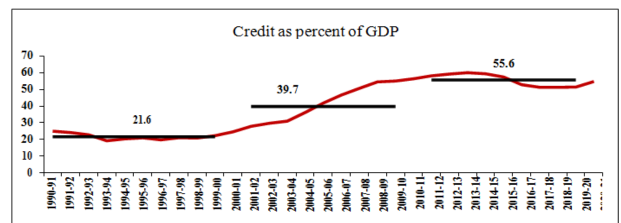
- Table 1 displays the percentage of GDP for the banking sector's assets, deposits, credit, and credit to the private sector in the years 1991-92, 2000-01, 2010-11, and 2020-21.

Table 1: India's Banking Industry Size as a Percentage of GDP, 1991–92 to 2020–21

Indicator	1991-92	2000-01	2010-11	2020-21
Assets	51.6	60.5	94.1	99
Bank Deposits	40.1	49.3	73.6	78.7
Bank Credit	24.1	24.6	56.3	54.6
Credit to Private sector*	21.7	21.0	51.6	49.4

Source: Reserve Bank of India statistical tables

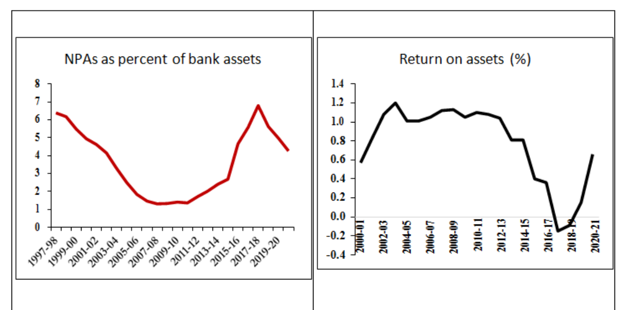
- Figure 1 visually illustrates the phenomenon of rapid credit expansion. Until approximately the mid-2010s, its growth exhibited a remarkable pace in comparison to the Gross Domestic Product (GDP). The ratio of credit to GDP experienced a reduction as the process underwent a reversal. Despite some improvement in 2020-21, the credit-to-GDP ratio remained lower than its level in 2010-11, a decade ago.



Source: RBI, Basic statistical return (BSR-1), Annual credit by Scheduled Commercial Banks.

Figure 1: Evolution of Credit as a Proportion of GDP: 1991-92 to 2020-21

- The figures presented in Figure 2's left and right panels, depicting the progression of NPAs and ROA, respectively, serve as initial evidence that loans were extended to unsuitable borrowers during the period of swift credit expansion.



Source: RBI, Handbook of statistics on Indian economy, Statistical Tables relating to banks in India.

Figure 2: Statistical Tables relating to banks in India

- Figure 3 presents a comparative analysis of the Bank Credit to GDP Ratios and Percentage Changes for a number of Emerging Market Economies in 2020 and 2010.

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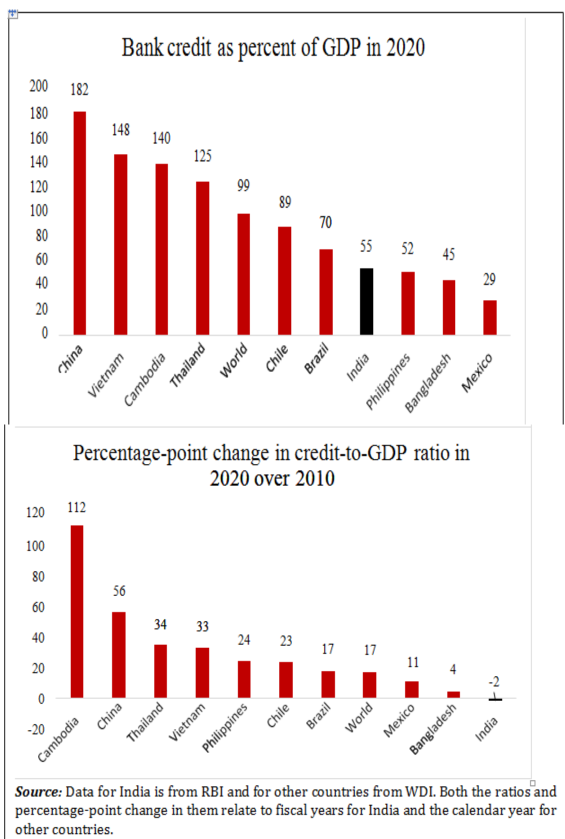
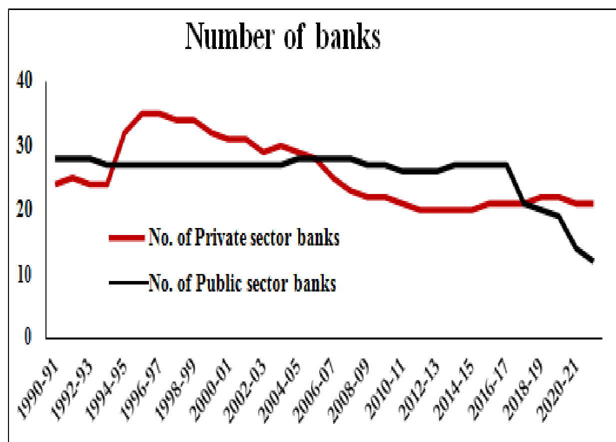


Source: Data for India is from RBI and for other countries from WDI. Both the ratios and percentage-point change in them relate to fiscal years for India and the calendar year for other countries.

Figure 3: Comparison of Selected Emerging Market Economies' 2020 and 2010 Bank Credit to GDP Ratios and Percentage Changes

- Figure 4's upper and bottom panels exhibit the quantities of commercial banks and public sector bank branches, respectively.



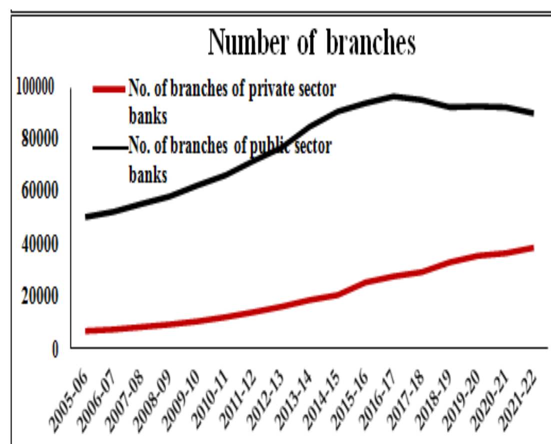


Figure 4: Number of Private & Public Sector Banks and Bank Branches: 1990-91 to 2021-22

- Table 2 indicates that the growth rates of assets, advances, and deposits of private banks have historically exceeded those of State Bank of India (SBI) and other public sector banks (PSBs). During the 2000s, the growth rate of State Bank of India (SBI) was outpaced by that of other Public Sector Banks (PSBs), whereas in the 2010s, SBI exhibited a comparatively higher growth rate. The aforementioned metrics collectively suggest superior performance by private banks, particularly when juxtaposed with the substantial capital injections that the government has historically infused into public sector banks.

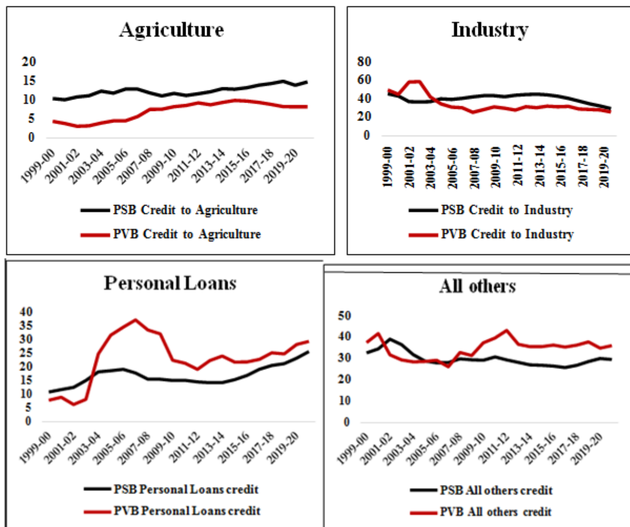
Table 2: Shares across Ownership Groups and Credit-Deposit Ratio

Bank Group	1991-92	2000-01	2010-11	2020-21
Assets as percent of total				
SBI	33.8	31.1	22.2	23.1
Other Public banks	54.7	48.4	51.5	36.7
Private Banks	4.2	12.6	19.5	32.8
All others	7.4	7.9	6.8	7.3
Credit to Private sector				
SBI	32.2	27.6	23.6	22.4
Other Public banks	57.8	49.1	51.7	34.1
Private Banks	4	13.9	19.8	38.1
All others	5.9	9.4	4.9	5.4
Deposits as percent of total				
SBI	28.6	29.6	22.2	23.6
Other Public banks	60.3	51.9	55.7	39.8
Private Banks	4.6	13	17.9	30.8
All others	6.5	5.6	4.3	5.8
Credit-Deposit Ratio				
SBI	0.71	0.48	0.80	0.67
Other PSBs	0.56	0.48	0.74	0.63
Private	0.52	0.50	0.80	0.82

Source: RBI, Statistical Tables Relating to Banks in India

- The findings presented in Figure 5 indicate that there are notable differences in the lending strategies employed by PVBs and PSBs across various industries. Public sector banks (PSBs) have traditionally allocated a

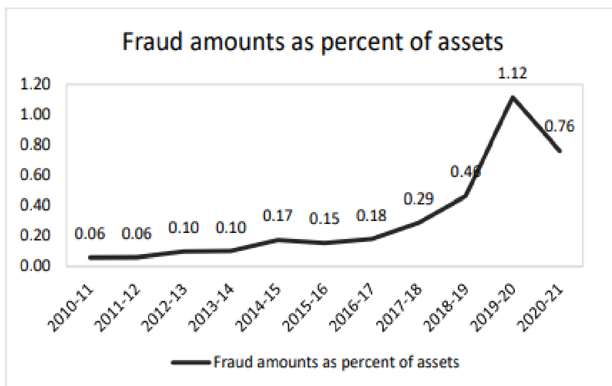
greater proportion of their overall credit to the agricultural industry in comparison to private sector banks (PVBs).



Source: RBI, Basic Statistical Return (BSR-1) Annual Credit by Scheduled Commercial Banks

Figure 5: Credit Allocation

- The graphical representation depicted in Figure 6 illustrates the progressive accumulation of the proportion of assets that have been subject to fraudulent activities over a period of time. In recent years, there have been notable instances of fraudulent activities involving significant amounts of money. The observed phenomena appear to be, to some extent, a manifestation of the regulator's inability to promptly identify instances of misconduct.



Source: Compiled from RBI Annual Reports.

Figure 6: Bank Fraud as a Percent of Combined Assets of SBI, Other PSBs, and Private Banks

CONCLUSION

It can be inferred that the primary objectives of the government during the period spanning from 1969 to 1991 were to extend banking services to rural and semi-rural regions and to allocate credit to sectors that were deemed underfunded, commonly referred to as "priority sectors." The 1990 branch expansion initiative resulted in the establishment of several unproductive bank branches, which were later terminated. The simple linear regression (SLR) analysis indicates that the level of non-performing assets (NPAs) in Indian banks continues to exhibit a persistent and resistant upward trend. The central bank mandates that all domestic commercial banks, excluding rural and small financing institutions and foreign banks with 20 or more branches, must comply with "priority sector" loans. As per the regulation, significant financial establishments are obligated to allocate a substantial portion of their loan portfolio (currently set at 40%) towards priority sectors. The category in question encompasses micro, small, and medium-sized businesses (MSMEs), renewable energy, and agricultural export financing. During the period of 1991-1992, the banking assets were predominantly held by public sector banks (PSBs) such as SBI, which accounted for 88.5 percent of the total share. In contrast, private banks held a significantly lower share of 4.2 percent. Subsequent to that particular year, the percentage of privately owned banks had escalated to 32.8%, whereas the proportion of Public Sector Banks (PSBs) had declined to 59.8%. Foreign banks hold the majority of assets in the category referred to as "All Others". In the fiscal year 2020-21, the aggregate assets held by small finance banks accounted for 0.8% of the total assets of the banking industry, whereas payments banks held a mere 0.6%.

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