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Productivity Management of Public Sector Commercial Banks in India

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INTRODUCTION

Productivity has come to mean quicker growth, faster expansion and accelearted progrress. However, the term productivity often is confused with production. Productivity differs from production, because productivity dose not reveal how much is produced rather how efficintly production is done. Productivity is a relative term (i.e. ratio) whereas production is an absolute term (i.e. volume). The dictionary meaning of productivity is the quality or fact of being productive. While productive means having the quality of producing or bring forth . Thus productivity is a measure of input efficiency. According to I.L.O. (1989) productivity means the ratio between output of wealth produced and the input of resources used in the process of production. However, for all practical purposes, a workable definition has been given by Robert Dubin (1979) as "productivity is the efficiency with which goods and services are produced that is, the ratio of the output of goods and services to the input of resources" (Dubin 1979)

A bank is 95 per cent men and 5 percent money (Padhy 1983). Hence banking productivity has to be viewed as a predominantly human phenomenon- the level of individual and group intent upon constantly attaining higher level of performance. Moreover, among all resources, human resources is the most important productive resource. Therefore, for a bank to be successful, the energy and creativity of entire work force must be tapped.

As work-force is the main input of the commercial banking system in India, therfore, average manpower productivity is traditionally used as the measure of banking productivity. It may be defined as the ratio of output to manpower input. While, commercial bank never produce any commodity, they produce services like deposit mobilisation, extension of credit, remittance facilities, collection and discount of bill, foreign exchange transaction, etc. The output of commercial bank should, therfore, be the sum total of all such services. But the character, nature,

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and diversity of all such services made it difficult to measure the output of a commercial blnk. With this limitation in view, some researcher consider working fund, i.e. balance sheet total less contra items as a measure of output. They take total salaries and allowances as input. In this prespective, working fund figure (WF) represents numerator and expenditure on manpower (EM) the denominator of the productivity equation.

Some scholars consider gross income as the closest proxy of the outppout and gross expenditure as the proxy of all the input, for the use of which a bank has to pay the costs. With this view, total income (I) represents the numerator and total expendiure (E) represents the denominator of the productivity equation. To put it in a slight different way some scholar opined that the ratio of incremental income and incremental expenditure should be the measure of banking productivity. It is regarded as the most modern concept of banking productivity. Symbolically:

$$Q=\frac{\Delta I}{I}/\frac{\Delta E}{E}$$

or

$$Q=\frac{\Delta I}{I}\times\frac{E}{\Delta E}$$

Here Q= productivity or outppout responsiveness to change in input,
I= Total income
E= Total expenditure
Δ (delta) = Changes between two periods

'If the proportionate change in expenditure (E) is more than the proportionate change in income (I), the cost is higher. Alterntively, if the proportionate change in (E) is less than the proportionate change in (I), the cost is lower. In the first case $Q < 1$ and in the second case $Q > 1$. In the former case the profitability is likely to fall and in the latter case the same would increase' (Abedin 1989). The present study uses all the above mentioned three approaches.

The main objective of the study is to examine the overall productivity performance of the public sector commercial banks in India and to give suggestions to increase productivity of the same. The study covers a period of 10 years ranging from 1984 to1993/94. Data for this study has been collected from *Reports on Trends and Progress of Banking in India, (RBI)* , Statistical Tables Relating to Banks in India, (RBI) and *Economic Survey of India*

EMPIRICAL FINDINGS

Table 1
Productivity of Public Sector Commercial Banks in India During 1984-94

Year	1st Alternative		2nd Alternative	
	WF/EM	Index	I/E	Index
1984	48.11	100	1.01	100
1985	49.12	102	1.01	100
1986	51.31	107	1.01	100
1987	56.52	117	1.01	100
1988-89	41.48	86	1.11	110
1989-90	47.54	99	1.11	110
1990-91	37.67	78	1.02	101
1991-92	38.27	79	1.02	101
1992-93	37.74	78	0.92	91
1993-94	37.71	78	0.92	91

Note: Annualised figure has been taken from 'Reports on Trend and progress of Banking in India (RBI)' due to change in the accounting year from calender year (Jan.-Dec.) to financial year (April-March).

Source: Compiled by the Author Based on *Reports on Trend and Progress of Banking in India 1993*, RBI.

As it would appear from Table 1, the manpower productivity index of public sector commercial banks had marked with some improvement till 1987 and after that it witnessed a remarkable decline from 117 in 1987 to 78 by the end 1993-94. The more revealing feature is that the manpower productivity index was static during 1990-94. Thus, the productivity growth was either very poor or negative during the whole period of study. This situation clearly suggests poor productivity performance of public sector commercial banks in India.

The second alternative (I/E) also corroborates discouraging productivity performance of public sector commercial banks in India as the productivity index was stationary till 1987 and after that it witnessed slight improvement during 1988-90, while, the same showed remarkable decling from 110 in 1989/90 to 91 by the end of 1993/94. Thefefore, the second alternative approach also demonstrates unhealthy productivity performance of public sector commercial banks in India.

Table 2
Productivity of Public Sector Commercial Banks in India During 1984-94 (Third Alternative)

In IRs.

Year	Income (I) (In crore)	Expenditure (E) (In crore)	$Q=\frac{\Delta I}{I}/\frac{\Delta E}{E}$	Index
1983	6510	6447	-	-
1984	8086	8024	0.992	100
1985	9589	9509	1.003	101
1986	11250	11105	1.027	104
1987	13309	13127	1.004	101
1988-89	18009	16222	1.366	138
1989-90	22854	20562	1.004	101
1990-91	27153	26677	1.000	100
1991-92	34446	33643	1.023	102
1992-93	36089	39457	0.309	31
1993-94	48595	52664	1.026	102

Source: As of the Table 1.

Productivity of Public Sector commercial banks also measured here as using the ratio of incremental output (income) and incremental input (expenditure).

Table 2 portrays the same situation with a slight deviation as narrated in the 1st and 2nd alternative approaches. The productivity coefficient was less than unity in 1992-93 indicating that the proportionate change in expenditure (input) was more than the proportionate change in income (output). Lower output responsiveness as a proportionate change in income (output) in relation to proportionate change in expenditure (input) affected the profitability of the public sector commercial banks. In all other years except in 1988/89, the productivity coefficient was silightly more than unity indicating that the proportionate change in expenditure (input) was marginally less than the proportionate change in income (output), while in 1988/89 the productivity coefficient was noticed with hopping improvement from 1.0 in 1987 to 1.4 in 1988/89. However, the overall productivity index clearly demonstrates poor or negative productivity growth during the whole period of study.

CONCLUSION

The study of the productivity management in terms of financial consideration shows poor productivity of public sector commercial banks in India. However, social aspect has not been taken into consideration.

The newly introduced market economy has dramatically changed the overall business environment in India. Consequently competition is going to increase in the financial sector. The productivity challenge should, therefore, be the most critical priority to the management of the public sector commercial banks in India. The challenge demands top-level commitment of the entire work force, long term strategy of the managemment and sighificant change in organisational culture. But, it must be remebered that the psychological work environment is a critical factor in this regard. The management should strive hard to create the same atmosphere in all the operational units in public sector commercial banks in India. Time is ripe now for public sector commercial banks to arise, awake and press on till the goal of higher productivity for better tomorrow is achieved.

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