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The Survival of Public Sector Banks in The Post LPG Era

New Competitive Strategies to develop brisk effeciency

ABSTRACT

In the Indian banking industry public sector banks occupies a vital place but their performance is very critical even in the post banking sector reforms period. There are so many issues, challenges, threats; they are facing for their survival in the era of globalization. The present paper compares and analyzes the profitability of four major bank groups i.e. SBI & its associates (G-I), Nationalized Banks (G-II), New Private Sector Banks (G-III) and Foreign Banks (G-IV) in the second post banking sector reforms era and concludes that there is a significant difference in the profitability of various major bank groups. The average profitability is the highest in the foreign banks (1.06 pc) and new private sector banks (0.96 pc) but the public sector banks are far behind in many parameters. From the correlation matrix, it is examined that the lower profitability of public sector banks is due to the significant and negative effect of burden whereas opposite in case of new private sector banks having their profitability higher due to the lowest burden and positive impact of interest income and interest expended. The paper suggests some strategies like (competitive strategies, customer focus, latest technology, effective HRM, capital planning, profit accountability, merger and acquisition and autonomy) which are necessary for the survival of public sector banks in the liberalized and globalized environment.

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1. INTRODUCTION

The economic crises of 1990's gave birth to the new economic macro level thinking to improve the economic health of the Indian economy. Economic reforms were introduced to solve these severe crises. Financial sector reforms, particularly banking sector reforms gave new sound and healthy direction to the Indian economy. Under the regime of LPG, new competitive strategies emerged and proved very beneficial for overall economic development of the country.

Financial sector is the milestone in the path of economic development of the country. Public sector banks are the backbone of Indian financial system, accounting a lion's share in the resources of the system. They crossed many milestones since 1969, serving as an average population of 14000; these banks today touch almost every section of the society. But, fortunately or unfortunately, liberalization & globalization policies made very critical position of these banks in the new millennium. Some public sector banks are facing very serious problems as their survival has become very difficult in the competitive world. One side, they are facing many challenges and threats from their counterpart's i.e. foreign banks and new private sector banks but on the other side, they are motivated from their excellent strategies. Some banks are merged with each other to face the emerging new inter and intra-group competition. Recently, RBI is also working on these lines that there should be only four or five public sector banks to face the global competition.

The present paper critically analyzes the survival issues of public sector banks and suggests some new competitive strategies to face the new competition in the global age.

2. NEW COMPETITIVE STRATEGIES TO TACKLE THESE ISSUES, THREATS AND CHALLENGES

The economic liberalization process has increasingly exposed the banking sector along with the other sectors of the economy to international competition. In order to meet the challenges of global competition, it has become necessary to change with the changing times, at least to the extent as demanded by the market. Accordingly, several measures of improvement have been recommended and implemented time to time such as nationalization of banks, introducing reforms, IT Act 1999 etc. New private sector banks and foreign banks have witnessed a remarkable growth in the banking industry but our century old public sector banks with large branch network, wide customer base and rich experience are suddenly perceived as inefficient, overstaffed, bureaucratic organizations which the customers are ready to desert at the first opportunity. We have analyzed above that public sector banks are facing with the problem of lower profitability due to excessive burden, which is because of excessive non-interest expenditure comprising of excessive establishment cost again effect of overstaffing. This all affect the overall financial performance of these banks badly, which depicts poor management of expenditure by these banks. Hence, the following are some major challenges faced by these banks need to be solved:

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- **Question of Survival in Competition – (Effective Competitive Strategies) :**

The foreign banks and new private sector banks have witnessed a remarkable growth but on the other side, public sector banks are at the edge to survive because new private sector banks and foreign banks with huge capital base, latest technology, innovative and globally tested products/services are fetching the customer's attention and earning handsome money.

Strategy : To make our public sector banks competitively strong, they should follow the strategies of new private sector banks and foreign banks as benchmark.

· Public sector banks should make their own effective competitive strategies taking into consideration the strategies of new private sector banks and foreign banks.

* Introduce latest technology.
* Introduce innovative and globally accepted products/services.
* Appoint experienced, skilled and tech-friendly professionals to formulate the competitive strategies.

- **Ignorance of Customers – Customer Focus :**

Customer is a king in today's market. All the public sector banks (except some banks) never try to focus on their needs and hence loose their market share. The customers are shifting from public sector banks to new private sector banks particularly our young generation.

Strategy : Public sector banks should also focus on customer needs and serve them accordingly.

Now days, it is the need of the hour to develop and manage the human resources to make them adaptable to the changing environment.

* Firstly, they should make their policies and strategies customer focused.
* Identify the potential customers, their needs and preferences and then accordingly improve the services.
* Improve delivery system by improving the attitude and behaviour of the staff also.
* Reduce transaction cost at least affordable by the poor customers too.
* For the whole purpose, staff should be trained.

Public sector banks with their huge workforce have to strive hard to change the entire organizational culture in order to measure up to customer expectations.

- **Obsolete Technology – (Latest Technology) :**

Why our public sector banks are lagging behind our new private sector banks and foreign banks? Because they are not fully IT-oriented, provide innovative services/products through latest technology. Our public sector banks, having vast branch network in rural, poor and uneducated areas, to whom the level of automation and efficiency of services are immaterial. Still, these areas lack the basic infrastructure, so how it is possible to introduce e-services/technology.

Strategy : Technology is no longer a matter of choice but compulsion to survive in the globalized market.

· Public sector banks should also adopt the latest technology to provide e-services. It will also help to reduce their burden of extra establishment expenditure.

· Technology should be cost-effective, customer-driven and especially implementable in the real working.

* Appoint young employees with fresh and creative minds expert in latest technology and trained the other ones also.
* Public sector banks should also be connected in single server network so that one branch/bank can communicate with others easily and quickly and make the services flexible.

As we all know, any change in any form is painful, so these programmes cannot be succeed without going through the pains of restructuring and sacrifices either of material or of men.

- **Poor Human Resource Management – (Effective HRM) :**

Public sector banks are overloaded with much experienced senior staff but with old hands who never ready to change accordingly. Now days, it is the need of the hour to develop and manage the human resources to make them adaptable to the changing environment. It is a big challenge for these banks that how to manage their human capital to make it productive, because unproductive staff is only burden on the business and hence weaken these banks as compare to private sector and foreign banks.

Strategy : Constitute separate Human Resource Development department in each bank.

* Provide on the job training to the inefficient (technology) staff to make them capable to understand and work with the latest technology.
* Performance of the staff should be evaluated quarterly or monthly to update their knowledge in case of any deficiency.
* Introduce VRS in a planned way.

- **Inadequate Capital – Capital Planning :**

There is a sign of decline not only in profits of public sector banks but they are undercapitalized too. If the NPAs are adjusted against tier-I capital, none of the public sector banks, baring a few i.e. PNB, Corporation Bank etc., will reach the prescribed minimum CAR (Capital Adequacy Ratio) of 10 pc. Many banks (new private sector banks & foreign banks) have started to access domestic as well as foreign markets to raise the additional capital. But our public sector banks are failed to raise additional capital due to inadequate capital planning and some critical restrictions by the government.

Strategy : To rise their capital following strategies are suggested :

* Public sector banks should come up with the active capital planning based on budgeting to ensure growth within the means generated by internal accruals.
* Cost of capital has to be factored into the product pricing policy adopted by the banks.
* The top management should be pragmatic enough to allocate capital to positive and higher risk adjusted returns and withdraw from loss-making products/services.
* Public sector banks should provide free access to market to raise additional capital without government interference.

- **Greater Emphasis on Profitability not on Accountability – (Profit Accountability) :**

Public sector banks give more stress on profitability not on the accountability. If the required profit target is achieved, nobody is accountable to reward and similarly in case it is not achieved then also nobody is accountable for punishment. Only branch units are given profit targets, not for functional heads and hence no accountability. In new private sector and foreign banks targets are given to persons and hence they are responsible for their performance individually.

Strategy : To cope up with this problem public sector banks should make proper policies for profit accountability.

* Public sector banks should fix accountability with targets on each concerned unit and person of the banks.
* Award the people who have achieved his target and take some necessary steps to improve the performance of others who have not been able to perform up to the mark.

- **Weak Banks/Branches with heavy Losses – (Mergers & Acquisitions) :**

There are several banks and some branches of the banks going continuously in losses, which are weak, not able to survive in the market. Its overall affect on public sector banks' performance is becoming poor and poor.

Strategy : Merger and acquisition is a possible solution to meet the international competition. Public sector banks can also opt for the same. The main motive of the merger and acquisition should be to multiply their strength with distinct advantages. The need is to make the M & A policy clearer and stronger.

- **Excessive Interference by the Government – (Autonomy) :**

Even after liberalization, still there are restrictions imposed by the RBI on the scheduled commercial banks. This non-

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autonomy to the public sector banks is a hindrance in their development. On the other hand, foreign banks and new private sector banks have the full autonomy in day-to-day operations and that is why their performance is significantly better than public sector banks.

Strategy : Public sector banks need operational freedom and autonomy. There should not be a bureaucratic control of the owners. In a liberalized environment public sector banks need to conduct its affairs based on the market signals. So, we can say, to compete in the global market public sector banks should be given full autonomy. RBI should provide full autonomy in the following areas:

* All the public sector banks should be given full autonomy to enter the insurance sector.
* All banks should be allowed for free merger and acquisitions.
* All banks should be allowed to curtail the rural branches.
* Managers/experts from the private sector banks should be allowed to serve the public sector banks without any condition.
* Autonomy to fix quota for priority sector advances.
* Politicians should not be allowed to interfere in the functioning of these banks.

3. CONCLUSION

We may conclude from the above discussion that various issues are relevant not only for the survival but to ensure sustainable growth of public sector banks in the new millennium too. If the proper planning is made to develop the public sector banks only then they will survive in the future. Public sector banks should make competitive strategies to compete with the other private sector banks in the liberalized and globalized era. To face the global competition, public sector banks should adopt the IT and for this they should change their work culture according to the changing environment.

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