

IMPROVED STRATEGY FOR SURVIVAL OF SCHEDULED BANKS OF INDIA

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ABSTRACT

Scheduled banks are facing tremendous pressure in its survival, question arises is, does the banks are really inefficient or somewhere they are failing in understanding the actual facts of their financial and non-financial data? In the era of 21st century invisible things are more significant than visible things, as what can be seen is known to all, but when you know something which other can't even see, advantage can be availed of those things for the development of your organization. To be more specific in the performance evaluation of organizations this intangibles are really making significant difference. However, the measurability of these intangible aspects is always critical issue. Aspects such as customer satisfaction their effectiveness, the internal processes or the impact of technology and the process of learning on the performance of an organization cannot be quantified like financial indicators, it is still essential to find innovative methods of quantifying these intangibles. This paper attempts to evaluate the significance of intangible aspects as a tool for performance measurement in the Indian banking sector and quantify them. This is vital since the contemporary methods include only the analysis of financial performance of the banks. However, it does not yield a very effective strategy since the financial performance is the translation of many invisible business processes and performance indicators in a financial service organization such as a bank. Neglect of this makes it difficult for such organizations to frame an efficient strategy for long-term growth. This paper is emphasis on performance evaluation model which is developed by considering each and every aspect of BANK OF INDIA, detailed study is performed of bank of India, by studying primary and secondary data of the bank as a result a model is created which can be applied to this bank for measuring its performance in more appropriate way

Key words: Performance evaluation, intangible aspects, balanced scorecard

IMPROVED STRATEGY FOR SURVIVAL OF TRADITIONAL BANKS OF INDIA

INCEPTION:

Bank of India (BOI) was founded on 7th September, 1906 by a group of eminent businessmen representing various religious communities from Mumbai. At the time when banks in India were either owned by Europeans, and served mainly the interests of the European merchant houses, or by different communities and served the banking needs of their own community, it became the first commercial bank set up in India for Indian economic

interests. The Bank was under private ownership and control and nationalized in July 1969. Beginning with one office in Mumbai, with a paid-up capital of Rs.50 lakh and 50 employees, the Bank has made a rapid growth over the years and blossomed into a mighty institution with a strong national presence and sizable international operations. It occupies a premier position among the nationalized banks of India. It has 2805 branches spread over all states and union territories including 93 specialized branches. There are 24 branches / offices abroad. After nationalization, the BOI came up with its first public issue in 1997. The bank has tried to adopt modern technology and adapted to the changing business environment at a fast speed in order to maintain its competitiveness.

VISION STATEMENT OF BOI

To become the bank of choice for corporate, medium businesses and upmarket retail customers and to provide cost effective developmental banking for small business, mass market and rural markets.

MISSION STATEMENT OF BOI

To provide superior, proactive banking services to niche markets globally, while providing cost-effective, responsive services to others (in our role) as a development bank, and in so doing, meet the requirements of (our) stakeholders.

STRATEGIC OBJECTIVES OF BOI

1. The strategy chalked out above can be implemented to attain these objectives:
2. Fair practices and transparency in operations
3. Imparting knowledge regarding banking policies in the field of credit and deposit, interest rate structure, special services to the customers
4. Minimization of customer grievances and customer friendly approach
5. Expansion of banking business to cater to wide array of customers, in rural and urban areas, within the country and abroad

EXISTING STRATEGY OF BANK OF INDIA

BOI aims to be an efficient one-stop shop for all sorts of financial products to cater to the wide range of demand from customers in a fast developing financial market of the Indian economy. Diversified banking network is the key driver of change in this direction with specific focus on

- Specialized branch network
- Retail banking
- Technological upgradation
- Achieving efficiency of operations
- Effective and efficient grievance redressal system

DETAILED SWOT ANALYSIS OF BANK OF INDIA

<p style="text-align: center;">STRENGTHS</p> <ul style="list-style-type: none"> • First Indian bank for Indian interests • Branches all across the country • Joint venture with Bombay Stock Exchange for depository services to stock brokers • Diversified and customized products • Strong position in financing foreign trade • Strong Capital base and Profitability • Large network of specialized branches • Strong Credit Rating • Large overseas presence among Indian banks, first to open overseas branch 	<p style="text-align: center;">WEAKNESS</p> <ul style="list-style-type: none"> • Low return on assets • Low investment-deposit ratio • Lack of aggressive marketing • Core Banking System not implemented across all branches • Business per employee lower than other PSBs • Slow implementation of new initiatives
<p style="text-align: center;">OPPORTUNITIES</p> <ul style="list-style-type: none"> • Infrastructural development of offices and branches • Increase in specialized branches to undertake very large credit business • More overseas branches for forex business • Scope of development in commercial and personal banking • Increase in Capital Adequacy Ratio • Reduction in NPAs 	<p style="text-align: center;">THREATS</p> <ul style="list-style-type: none"> • Aggressive marketing strategies by private banks • Comparatively higher rate of interest among nationalized banks • Low net interest margin • Competition from foreign banks in near future • Stagnation in growth of deposits • Insufficient trained employees • Erratic return on equity • Shift of business towards new generation banks

IMPROVED METHOD WITH CHANGING SCENARIO

This raised a question: what was so significant about the intangible or non-financial measures that financial achievements were rendered inadequate in performance evaluation? A broader perspective of measuring the extent of success of an organization was needed initially in the 1970s and 1980s. This is when the **customer** gained more awareness and **customer satisfaction** emerged as a key indicator of the successful existence of an organization. Thus, purely financial indicators of management accounting and the traditional methods of financial control were no longer relevant for performance measurement. The integration of non-financial measures in measurement systems also allows managers to better understand the relation among various strategic objectives, to communicate the association between employee's action and strategic goals, to allocate resources and to set priorities based on those objectives. (Kaplan and Norton 1996) According to Ittner and Larcker (2001), focusing on the definition and implementation of strategies and information systems that emphasize value creation and the underlying drivers of value, can align management process and internal goals with external goals.

Perera, et al. (1997) find that the use of non-financial measures is associated with enhanced performance for firms pursuing customer satisfaction through their manufacturing strategy. Ittner and Larcker have examined the relation between customer satisfaction and performance of the firm using customer level business unit and firm level data. Their study suggests that many firms do not experience a significant association between customer satisfaction and contemporary accounting data or market returns.

Keeping in mind the above SWOT analysis, the BANK can focus on four perspectives. This four perspective will really help the bank in developing better strategy, all the banks are strictly following norms suggested by RBI still we can see in the last decade that majority of the public sector banks are performing below standards even after following all the mandatory requirement, it can be analyzed that banks have managed regulations but actually its regulatory failure which is cossetting performance of all scheduled banks at large extent, and majority of the banks of India is scheduled bank, so it's not just bank who will suffer, entire banking sector of India will be affected badly which will leads to economic crisis in the country, so it's a demand of the era to think differently with its strategy, this paper is an effort to focus on how bank of India one of the leading scheduled bank can think of its strategy with regards to appropriate measurement The performance of the bank for these perspectives is to be evaluated using the indicators mentioned earlier. In reality, tangible and intangible measures of 197performance are intertwined in loops. For instance, data on intangibles such as customer satisfaction can

yield significant forecasts of earnings only when they are analyzed in conjunction with financial statistics. Nagar and Rajan (2005), in a study of 115 retail banks, used a set of wide ranging customer relationship data and concluded that no single customer relationship metrics can be used in isolation to forecast future earnings.¹ Rather, when combined with other such information on customer relationship and financial data, better forecasting becomes feasible. Consequently, the approach adopted by banks involves a set of multiple objectives, revolving around both tangible (financial) and intangible (non-financial) measures. These objectives may include, concentrating on profitable business model and convincing the stakeholders; i.e., the customers, the employees, the monetary authority, the government and the society at large; about the commitment towards business ethics and prudence.

SCHEDULED BANKS REQUIRES TO FOCUS ON CUSTOMER SATISFACTION



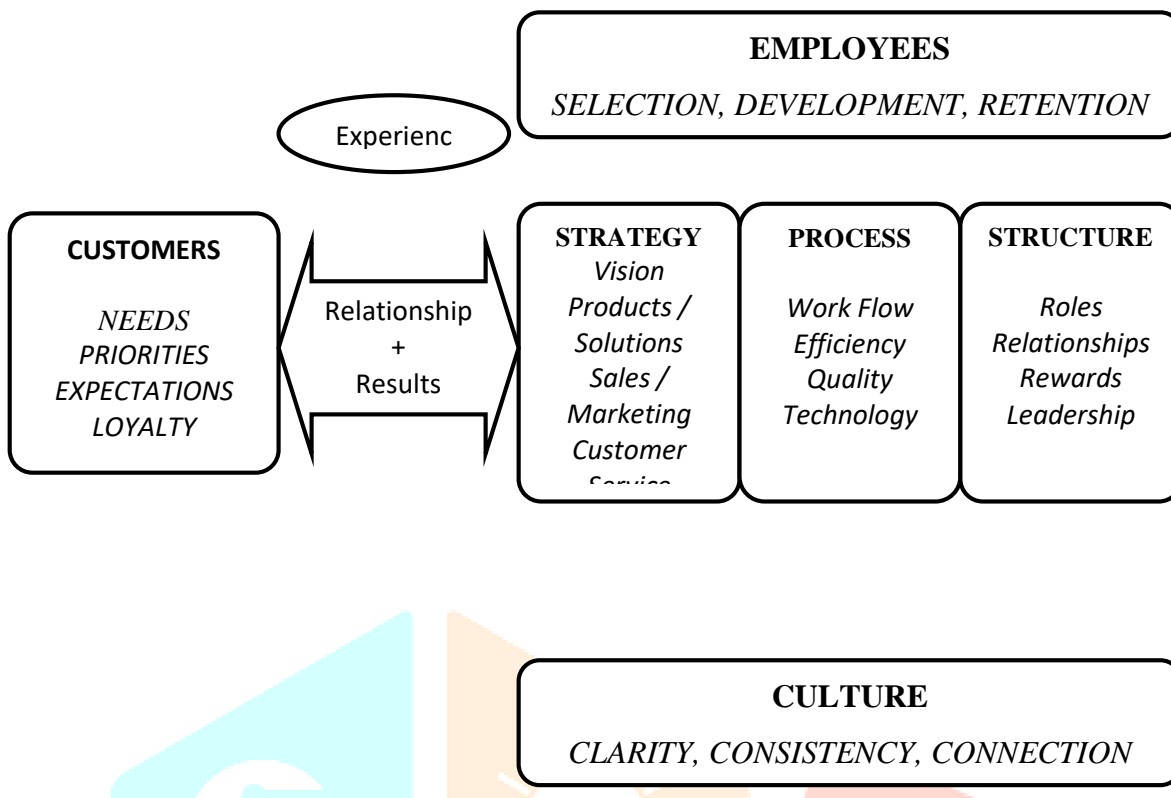
Before looking into how the new model can be utilized effectively for a banking organization, it is necessary to define the performance drivers for such an organization. Recognizing appropriate performance drivers is essential for an effective strategy that will help an organization realize its objectives. Alignment of these performance drivers ensures effectiveness of the strategy. For an organization like a bank, the customer behaviour is a major indicator of the bank performance. The more a customer trusts the bank, the better the performance of the bank. And, the trust of the customer can be won over by the bank's efforts to

1. Understand the customer's requirements,
2. Offer products that satisfy customer's requirements,
3. Help the customer in the choice of alternative solutions, and
4. Effectively differentiate one's own services from the competitors.

Thus, the value created by the bank and the trust built by it for the customer is the key to improved performance of the bank. The strategy of the bank should be such that it creates and adds value to the banking operations and builds up the trust in the mindsets of the customers.

¹ Nagar, Venky & Madhav V. Rajan (2005) 'Measuring Customer Relationships: The Case of the Retail Banking Industry', *Management Science*, June.

DIAGRAM 2.3: PERFORMANCE DRIVER MODEL



The *Performance Driver Model* as shown by Knight (2005) focuses on the fundamental drivers that shape the performance and growth of an organization. It also considers that a bank and its business units function as a cohesive performance system, rather than just as a collection of individual segments. Such a model is given in diagram 2.3.² **What is the relevance of these five performance drivers for an organization?**

1. Culture is the foundation on which the other performance drivers are built and from which they draw energy and strength. Culture provides stability and nurtures the banking operations. Its ability to engage and align people makes culture a silent leader in an organization that directly deals with human economic activities.
2. Strategy is where the bank interacts with the customers. It focuses on four aspects: one, vision, clarifying direction and focusing the energy of associates; two, products and solutions, developing the portfolio of financial services to be offered to customers; three, sales and marketing, positioning the bank in the marketplace and winning the business of customers; and four, customer service, earning the loyalty of

² Knight, Timothy (2005) 'The Performance Driver Model: Building and Leading a High Performance Organization', *The Performance Challenge*, Rev 010805.

customers. Customer care is an important way to differentiate banking services in an industry where product offerings are similar.

3. Process enables a bank to perform and produce results. It determines the extent to which business performance can be improved. Stronger business processes do not have any alternative in the long-term. Performance improvement is a continuous process, and requires removal of internal weaknesses and activities that do not add value to the business. Banks need to continuously ask themselves: how to evolve business processes that work better for the employees and customers?
4. Structure is the way a business organizes itself to realize the objectives. A high performance organization functions in two directions: one, it supports its employees so that they can perform effectively in a team and serve their customers; and two, it develops a feasible range of leaders within the employees' network. An organization may have formal and / or informal structure. A formal structure is depicted by the organization chart; while an informal structure is the network of personal relations that develops through organizational communication and connectivity. Informal structures in an organization can be very powerful, especially in the banking industry that deals with personalized products.
5. People make up the core of a business. The performance of a bank is the outcome of collective efforts of all its associates. Highly efficient, motivated people can make long-term success possible whereas mediocre personnel will render mediocrity to the organization. The best organizations, therefore, pay careful attention to the way they select, develop, and retain their people. They concentrate on selecting people with right aptitude, training them for life skills and job skills, and rewarding them appropriately for their superior performance. Successful organizations also recognize the significance of the combination of technical competence with personal excellence and look for innovations in this area as well.

For attaining the best results, it is essential that these drivers be combined effectively. Thus, it is necessary to develop a business strategy that delivers superior customer value and provides the bank a sustainable competitive advantage; a culture that engages and energizes people; business processes that facilitate efficiency in operations and produce superior quality products; an organizational structure that supports people and processes on the basis of trust and teamwork; and a team of people that is motivated to perform, learn and grow individually as well as in a group.

Given these performance drivers, now the question is: how to measure performance of a banking organization? It is easy for a bank to have a skewed focus on any one aspect – mostly the focal point happens to be return on equity (ROE) or marketing of products with the volume and growth of credit and deposits as the central objective. According to Karr (2005) the adoption of risk-adjusted capital adequacy guidelines, poor profitability over long-term, and conceptual and practical failure of the measures such as asset growth, used earlier, often lead bank management to focus on ROE as the ultimate performance scorecard.³ Such framework brings about many changes in performance measurement as well as in the management processes used to plan, operate and control the bank. However, bank executives have come to realize that this does not present the entire picture of bank performance measurement and evaluation. This is because ROE scorecard provides only a summary of the variables contributing positively or negatively to the shareholder value. It does not give any idea of how and why specific kind of performance is realized. It also does not indicate the progress made by the bank in terms of its strategic agenda. Precisely, ROE is incomplete as it ignores important non-financial indicators, cross-organization measurements, forward-looking views on performance measurement, external benchmarks or points of reference and performance drivers, while outcomes are overemphasized.

DEVELOPING MODEL FOR IMPROVING EFFICENCY OF BANK OF INDIA

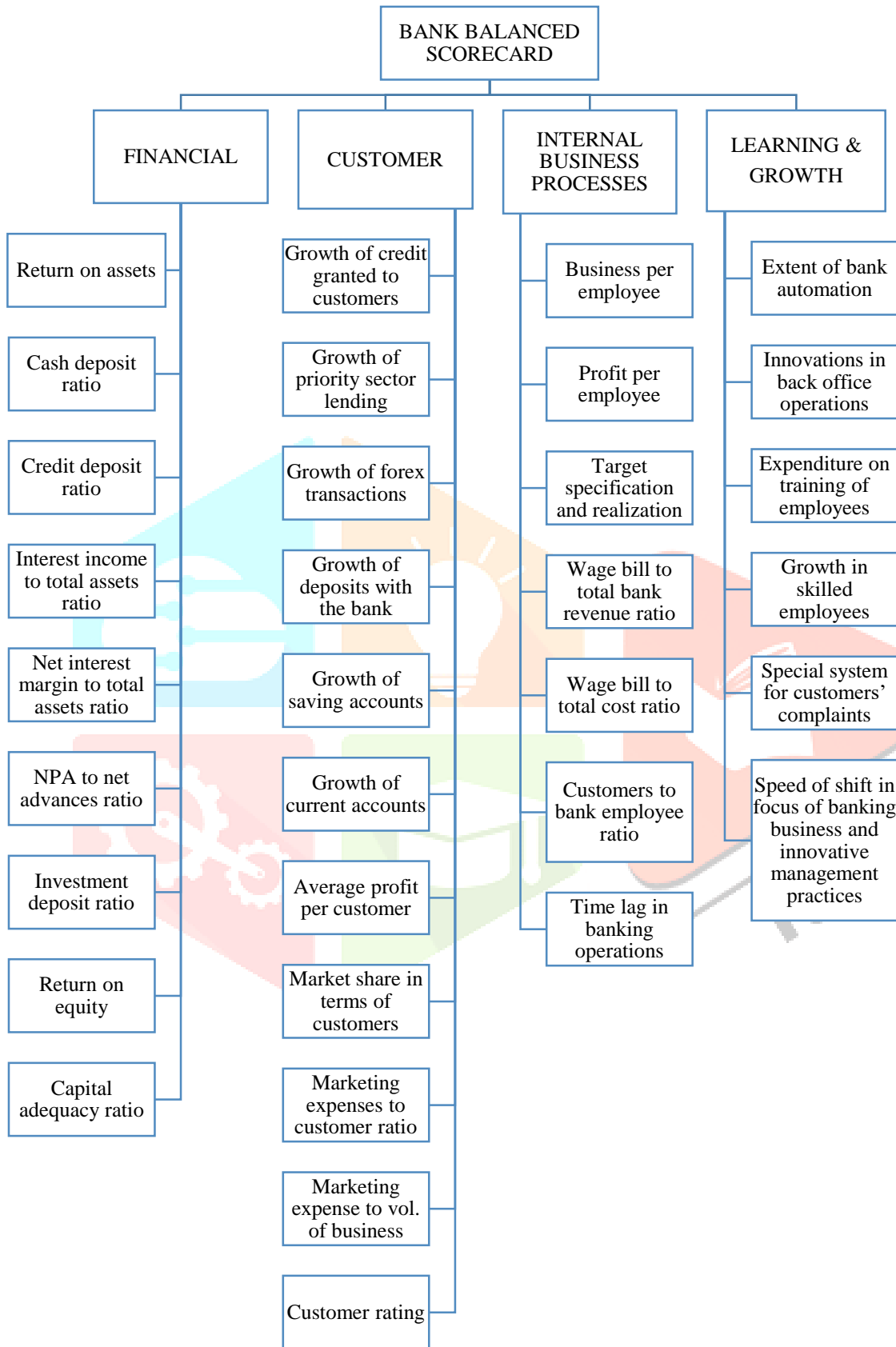
While establishing the functional relations in building model for the Indian banking, a question regarding the set of performance indicators that needs to be identified for each perspective arises. It is a comprehensive model-building exercise, with equal emphasis on tangible and intangible performance indicators for a banking organization. This makes BSC system a multiple indicator approach towards performance evaluation. Thus, the BSC aims at the analysis of financial aspects of bank performance, or the tangible indicators, easily measurable in numbers, as well as non-financial aspects, or the intangible indicators, displaying the characteristics of attributes that are not easily measurable in numbers. These indicators show whether the bank is able to achieve its objectives in a specified time period or not. They also show the extent to which the objectives are realized. Very often, the bank also needs to follow the norms set up by the monetary authority in the economy, i.e., the

³ Karr, John (2005) 'Performance Measurement in Banking: Beyond ROE', *Journal of Performance Management*, http://findarticles.com/p/articles/mi_qa4148/is_200505/ai_n15742974.

Reserve Bank of India (RBI) in case of the Indian economy. Long-term success of a banking organization necessarily implies compliance with the RBI norms and simultaneous realization of encompassing growth and development so as to satisfy the stakeholders. This raises the issue of defining precise functional relations among the organizational perspectives and the performance indicators on one hand, and the interrelations among various performance indicators.

PERFORMANCE INDICATORS FOR BANKS AND DEVELOPING MODEL:

The model of bank, like the one for any organization, comprises of four perspectives. These are: financial, customer, internal processes, and learning and growth. These perspectives are measured using several performance indicators. It is obvious that the set of performance indicators for each bank can differ from that of the other banks. However, some generalization can be made based on the assumption of common economic environment, i.e., the Indian economy. The BSC modelling process used here aims to attain this. First, it is essential to understand the meanings of various performance indicators in the context of objectives of Indian banks. Next, the procedure to construct a BSC for Indian banks is developed, which is followed by the exercise of BSC modelling. A sample of banks needs to be selected in such a way that it efficiently represents the Indian banking sector. Considering that each individual bank is an independent entity, with minute variations in its set of objectives, each may have a specific set of performance indicators as well. However, to maintain consistency in evaluation at later stages, a common set of indicators needs to be defined initially.



This renders BSC modelling one step above the simple analysis of profit and loss of banks. While conventional financial analysis of a bank may lead to a conclusion that the bank is performing well, considering a multidimensional matrix of various indicators and analysis of bank performance through the BSC may lead to a different conclusion. At the same time, it includes pre-determining of strategy to achieve various short-term and long-term objectives as well as the analysis of strengths, weaknesses, opportunities and threats emerging (SWOT) from the business environment for the bank. This enables a bank to define its objectives and indicators for each perspective in a more effective manner. The indicators to be included for a BSC of the banks are largely quantitative in nature. Wherever qualitative indicators are included, they can be translated into quantitative measures yielding efficient results. Considering this, the variables to be included in the BSC of Indian banks are shown above in diagram

CONCLUSION

Most of the India's scheduled banks are neglecting customers satisfaction, as for ages Indian banking companies were like monopoly business, but that's not true if we see the banking sector of last two decades after globalisation and liberalisation, we can see various private sectors banks have started their business and got success on its key feature of customer satisfaction, same is true with foreign banks like CITY BANK and ABN AMRO, in this changing environment satisfaction of customer is very significant factor. Customers have started to trust these foreign banks and private sector banks, which has increased the competitive level of Indian banking sector as a result banking business of scheduled bank is badly affected. The aim of this paper is to think and to develop such a measurement system, which helps the bank in improving its existing system by making modifications in the present environment to the possible extent. Many financial measures reflect results of various intangible aspects of the banks and by concentrating more on them, Indian banks may be able to adopt a more balanced approach to performance management and thereby achieve the desired results.

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