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A STUDY ON THE PRODUCTIVITY AND PROFITABILITY OF INDIAN BANK

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ABSTRACT: -

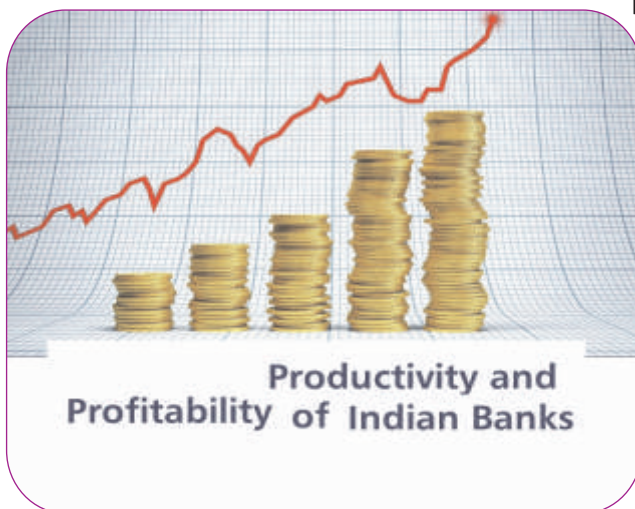
The world has become a global market. The impact of globalization, privatization and liberalization has totally changed the style of banking sector in India. Banks are essential instruments of accelerated growth in a developing economy. The health of the economy is closely related to the soundness of its banking is now an essential part of our economic system. Although banks create no new wealth but their borrowing, lending and related activities facilitate the process of production, distribution, exchange and consumption of wealth. Modern trade and commerce would almost be impossible without the availability of suitable banking services. In fact, banks act as a link between those who want to save and those who want to invest, so improvement in the productivity of the banking sector is very much needed who want to save and obviously, difficulty is not in applying the broader concept of productivity as ratio of output and input, but is in measuring output in the form of services. Profitability indicates earning capacity of the banks. It highlights the managerial competency of the banks. It also portrays work culture, operating efficiency of the bank. Profitability is the most important and reliable indicator as it gives a broad indication of the ability of a bank to raise its income level. For the purpose of study the researcher has selected the Indian bank on the whole. The concept of productivity and profitability were considered for the purpose of study. Various ratios, commonsize percentages, trend percentages and statistical aspects have been used.

KEYWORDS: Productivity, Profitability, Banks, Per Employee, Per Branch.

INTRODUCTION OF THE STUDY

Productivity is a vital indicator of economic performance of an economic system. Productivity is not an end in itself. In fact, it is a mechanism for improving the material quality of life. Productivity is fundamental to progress throughout the world. It is at the heart of economic growth and development, improvements in standards of living and quality of life.

Profitability of banks is affected by a number of factors. Some of these are endogenous, some are exogenous and yet structural. Changes in policies made by RBI are exogenous to the system. This includes changes in momentary policy, changes in quantitative credit control like changes in CRR, SLR, manipulation of bank rates, qualitative credit controls like selective credit control measures, C/D ratio, regionwise guidelines on lending to priority sectors, changes in interest rates on deposits and advances, levy of tax on interest income etc. Various other factors like careful control of expenditure, timely recovery of loans are



endogenous. Various structural factors include geographical spread of bank branches, decentralization in the management and structural changes in deposits and advances.

Banking structure and profitability structure of banking system across countries have a bearing on the profitability of banks. The profitability of banks is affected one way or the other by these factors, either individually or jointly. Bank profitability is causing concern to all. After liberalisation, profitability has regained its lost importance. Now efforts are being directed to achieve the profitability targets. The profitability of public sector banks has been indicating a fast declining trend in the past and the situation in future may not be different if all the concerned do not take timely preventive measures before the situation goes out of control. Since all the banks in the country function under similar environments, the low performance of any bank can be attributed to a larger extent to their managerial inefficiency and structural deficiency. The study aims at the analysis of productivity and profitability of Indian bank, a premier public sector, Government of India Undertaking, which was established on 15th August 1907 as part of the Swadeshi movement. The bank has been serving the nation with a team of over 20924 dedicated staff as on 31.03.2017.

STATEMENT OF PROBLEM

In a fast changing banking environment of today the very survival of a banking organization depends on level of the income generated through optimum use of assets after paying the cost of funds for acquiring them and other administration costs involved therein. "Financial soundness has a close relationship with the productivity of financial institutions. The overall growth of an economy depends to a great extent on the efficiency, productivity and soundness of its banking system. A sound banking system serves as an important medium for pushing economic growth by mobilization of small savings of unproductive domestic sector and putting them to the productive use. They are not only essential for the security and strength of the financial system, but also make significant contributions to the economy across the country. They continue to pursue all the opportunities available to enhance their productivity and competitiveness. Top bank management wants to identify and eliminate the underlying causes of inefficiencies, thus helping their firms to gain competitive advantage, or, at least, meet the challenges from others. Therefore to survive in the competitive era banks have to monitor their performance by means of productivity and profitability analysis. So, an attempt has been made by the researcher to analyse the productivity and profitability of Indian bank.

OBJECTIVES OF STUDY

The followings are the objectives of the study:

- To examine the sources of funds and deployment of funds.
- To analysis the productivity and its compounds of Indian bank.
- To analysis the profitability of the Indian bank.
- To give appropriate suggestions and recommendations for increasing the productivity and profitability of Indian bank.

PERIOD OF THE STUDY

This study covers a period of 5 years from 2012-2013 to 2016-2017.

RESEARCH METHODOLOGY

The present study has been conducted on the basic of secondary data and is descriptive in its nature. The study period is confined to a period of five years from 2012-13 to 2016-17. The required secondary data for the study was collected through different websites, annual report of Indian bank and different journals. To make the analysis meaningful, statistical tools like- ratios, mean and common-size percentage were applied.

LIMITATIONS OF THE STUDY

The followings are limitations of the study.

- The study is limited to Indian bank.

- The study is limited to only five years from 2012-13 to 2016-17.
- The study has not taken into account other variables, it considered only productivity and profitability.
- The study considers only quantitative aspects of productivity and profitability not the qualitative aspects.

REVIEW OF LITERATURE

A number of studies have been conducted by various researchers and institutions on different aspects of commercial banking. Some important studies relating to the productivity and profitability of Indian bank have been reviewed.

Ramamurthy (1998), in his technical paper on the profitability and productivity in Indian banking stated that the banking structure and profitability structure of the banking system across the country have a bearing on the profitability of the banks. When banks are considered as groups in terms of big, medium and small, bigger banks have greater scope for economies of scale. The author opined that one of the main determinants of banks' profitability is the network of branches, frequently termed as franchise strength. The researcher concluded that Indian banks have- Higher interest spreads than banks abroad; Higher operating costs than banks abroad; and Higher risk provision level. As far as the impact of liberalization is concerned, the author stated that productivity as measured in terms of per employee business for the banking system as a whole went up from Rs. 45.33 crore to Rs.73.40 crore during the post-reform period of 1992-96.

Bansal (2005), in his research work, attempted to find out the impact of liberalization on productivity and profitability of public sector banks in India. The researcher evaluated the productivity and profitability of 27 PSBs in the post-liberalization period, i.e., from 1991-02. The productivity of all the PSBs has been measured on the basis of employee productivity (labour productivity), branch productivity and overall productivity. The researcher ranked different banks from all the three levels of productivity. While measuring productivity he used parameters like Deposit, Advances, Business, Total Income, Total Expenditure, Burden, Spread and Net Profit. The study brought out that from the overall productivity angle, BOB, BOI, SBI, COB, OBC have been the top rankers.

Jain (2006), in his article titled, "Ratio Analysis: An Effective Tool for Performance Analysis in Banks" discussed various ratios relating to profitability of the banks. The author classified the various ratios under three categories, viz. Costing Ratio, Returns / Yield Ratio and Spread Ratios. Such ratios can be used to understand a bank's financial condition, its operation and attractiveness as an investment. He explained that such ratio analysis can be used to make an inter-branch comparison for investigating the strengths and weaknesses of individual bank's and to enable them to take strategic decisions and initiate necessary corrective actions. Under costing ratio, the author advocated for computation of average cost of deposits, average cost of borrowings, average cost of interest bearing liabilities, average cost of funds and operating expenses to average working funds. Similarly under yield/return category, he computed ratios like yield on advances, yield on investment, average return on interest earnings, average return on funds and non-interest income to average working funds and total income.

Mohan (2006) in his paper titled "Reforms Productivity and Efficiency in Banking: The Indian Experience" observed that the objective of reforms in general is to accelerate the growth momentum of the economy, defined in terms of per capita income. Not surprisingly, therefore, performance of the banking sector has repercussions across the length and breadth of the economy. Financial intermediation is essential to the promotion of both extensive and intensive growth. Thus development of the financial system is essential to the generation of higher productivity and economic growth. The author highlighted how does productivity in banking influence the rest of the economy. A basic indicator of financial development is the contribution of finance related activities to GDP and the process of financial deepening. The author believed that financial deepening is easier to measure; analyzing productivity and efficiency changes in banking is more complex and needs to be viewed in relation to the changing contours of the banking industry in India.

ANALYSIS AND INTERPRETATIONS

The researcher has analyzed and interpreted the data with the help of following terms.

**SOURCES OF FUNDS
DEPLOYMENT OF FUNDS
SOURCES OF FUNDS**

(In crores)

YEAR	CAPITAL	RESERVE AND SURPLUS	DEPOSIT	BORROWINGS	OTHER LIABILITY AND PROVISION	TOTAL
2012-13	829.77	11,142.66	141,980.15	2,862.56	6,007.46	162,822.60
	0.51	6.84	87.19	1.76	3.69	100
2013-14	464.85	13,406.19	162,274.82	4,963.87	6,116.49	187,226.27
	0.25	7.16	86.67	2.65	3.27	114.99
2014-15	480.29	14,352.96	169,225.27	2,646.09	6,131.35	192,835.97
	0.25	7.44	87.76	1.37	3.18	118.43
2015-16	480.29	15,779.48	178,285.84	3,509.32	5,655.45	203,710.38
	0.24	7.75	87.52	1.72	2.78	125.11
2016-17	480.29	16,681.72	182,509.89	12,636.89	5,924.96	218,233.14
	0.22	7.64	83.63	5.79	2.71	134.03

Interpretation

The above table summarized the sources of funds. The share capital was recorded as Rs.829.77 crores. It decreased to Rs. 464.65 crores in 2013-17 due to perpetual non – cumulative preference shares. In 2014-15, it mounted to Rs.480.29 crores and remained the same for the next two years. The reserve and surplus is gradually increased from Rs.11,142.66 crores in 2012-13 to Rs.16,681.72 crores in 2016-17 during the study period. In the study period, the deposits have gradually increased. The deposit was increased from Rs.141,980.15 crores in 2012-13 to Rs.182,509.28 crores in 2016-17. The borrowing has fluctuated for the first four year of study period between Rs.2862.56 crores in 2012-13 and Rs.3509.32 crores in 2015-16. In 2016-17, it increased abnormally and reached to Rs.12,636.89 crores in 2016-17. The other liability and provision has fluctuated in the five years of the study period. Finally total funds increased from Rs.162,822.60 crores in 2012-13 to Rs.218,233.14 crores in 2016-17 of the study period.

DEPLOYMENT OF FUNDS

(In crores)

YEAR	CASH AND BALANCE WITH RBI	BALANCES WITH BANK AND MONEY AT CALL AND SHORT NOTICES	INVESTMENTS	ADVANCES	FIXED ASSETS	OTHER ASSETS	TOTAL
2012-13	7064.24	2,574.44	41,804.98	105,642.55	1,690.51	4,045.88	162,822.60
	4.34	1.58	25.68	64.88	1.04	2.48	100
2013-14	7,757.68	2,732.86	46,809.94	122,208.98	2,932.18	4,784.58	187,226.27
	4.14	1.46	25.00	65.27	1.57	2.56	114.99
2014-15	8,301.07	4,780.10	45,898.61	125,863.54	2,968.73	5,023.92	192,835.97
	4.30	2.48	23.80	65.27	1.54	2.61	118.43
2015-16	9,174.45	2,824.84	53,089.31	129,049.08	3,511.07	6,061.63	203,710.38
	4.50	1.39	26.06	63.35	1.72	2.98	125.11
2016-17	5,588.70	4,453.02	67,551.79	127,699.28	3,442.60	9,497.75	218,233.14
	2.56	2.04	30.95	58.52	1.58	4.35	134.03

Interpretation

The deployment of funds was examined and compared in the above table. The cash and balance with Reserve bank of India was registered as Rs.7064.24 crores in 2012-13. It increased to Rs.7757.68 crores in 2013-14. The amount of cash has increased to Rs.8301.07 crores and Rs.9174.45 crores in 2014-15 and 2015-16. The cash deposited with Reserve bank of India has reduced to Rs.5588.70 crores in 2016-17. The

variations are due to changes in CRR & SLR requirement. Balances with bank and money at call and short notices was increased in the first three years. Then the fourth year of the study period it was decreased to Rs.2,824.84 crores in 2015-16. But in 2016-17, it was to increased Rs. 4,453.02 crores in 2016-17. Investments have a sudden decrement of Rs. 45,898.61 crores the year of 2014-15 during the study period. Advances, fixed assets and other assets are gradually increased in the five years of the study period. Finally, the total funds are increased from Rs.162,822.60 crores in 2012-13 to Rs. 218,233.14 crores in 2016-17 during the study period.

PRODUCTIVITY AND PROFITABILITY

Human resource is the most important asset of an organization and banking business is no exception to it. But Indian PSBs are known for their excessive staff strength, it affects their productivity. In the present study, employee productivity of PSBs has been evaluated.

BUSINESS PER EMPLOYEE

(Rs in crores)

YEAR	TOTAL BUSINESS	NO OF BANK EMPLOYEE	RATIO
2012-2013	247,622.70	18,870	13.12
2013-2014	284,483.98	19,429	14.64
2014-2015	295,088.81	20,294	14.54
2015-2016	307,334.92	20,140	15.26
2016-2017	310,208.56	20,924	14.82
AVERAGE			14.48
STD DEV			0.72
CV			0.05

Source: Annual Reports of Indian Bank

Interpretation

The business per employee has examined in the above table. The total business has recorded an increasing trend and it raised from Rs.247622.70 crores in 2012-13 to Rs.310208.56 crores in 2016-17. The number of employees has gradually increased from Rs.18870 crores to Rs.20924 crores during the study period. The ratio has recorded a fluctuatory trend and it varied between 13.12 and 15.26 during the study period. Though, amount of total business has increased, difference in number of employee has made the ratio to fluctuate. The bank has to take steps to maintain the stable increase in business per employee.

DEPOSIT PER EMPLOYEE

(Rs in Crores)

YEAR	TOTAL DEPOSITS	NO OF EMPLOYEE	RATIO
2012-2013	141,980.15	18,870	7.52
2013-2014	162,274.82	19,429	8.35
2014-2015	169,225.27	20,294	8.33
2015-2016	178,285.84	20,140	8.85
2016-2017	182,480.04	20,924	8.72
AVERAGE			8.29
STD DEV			0.41
CV			0.05

Source: Annual Reports of Indian Bank

Interpretation

The above table reveals that the total deposit of Indian bank has increased from Rs141,980.15 crore in 2012-2013 to 182,480.04 crore in 2016-2017. The deposit per employee has examined in the table. The number of employee has varied from 18870 to 20924 which increased gradually, subject to slight decrease in 2015-16. The ratio has increased from 7.52 crore in 2012-13 to 8.72 crores in 2016-17, but recorded a decrease in 2014-15. It reveals that bank has continuously taking effort to mobilize deposit during the study period. Even though the amount of deposits and number of employees has increased in 2014-15, its variable proportions made the ratio to decrease. The average ratio of 8.29 crores was achieved in all the years except in the first year of the study period.

ADVANCES PER EMPLOYEE

(Rs in crores)

YEAR	TOTAL ADVANCES	NO OF EMPLOYEE	RATIO
2012-2013	105,642.54	18,870	5.60
2013-2014	122,208.98	19,429	6.48
2014-2015	125,863.54	20,294	6.02
2015-2016	129,049.07	20,140	6.41
2016-2017	127,707.71	20,924	6.10
AVERAGE			6.12
STD DEV			0.31
CV			0.05

Source: Annual Reports of Indian Bank

Interpretation

The advances per employee has analysed through establishing the relationship between total advances and number of employees. It is inferred that the total advances of Indian bank has increased from Rs.105,642.54 crores in 2012-2013 to Rs.1,27,70,71 crores in 2016-2017. The number of bank employees differed from 18870 to 20,924 during the study period. The ratio has recorded a fluctuated trend. It decreased in even years and increased in odd years. On the whole, advances has increased except in 2016-2017, due to the decrement of bills purchase and discounted and others. The proportional variations in number of employees of advances reflected in the ratio. The advances per employee has varied from 5.6 crores to 6.48 crores during the study period. The standard deviation of 0.31 and co-efficient of variation of 0.05 per cent denotes that the ratio has less variability.

NET PROFIT PER EMPLOYEE

(Rs in lakhs)

YEAR	NET PROFIT	NO OF EMPLOYEE	RATIO
2012-2013	1,58,113	18,870	8.38
2013-2014	1,15,894	19,429	5.96
2014-2015	1,00,517	20,294	4.95
2015-2016	71,138	20,140	3.53
2016-2017	1,40,567	20,924	6.72
AVERAGE			5.91
STD DEV			1.64
CV			0.28

Source: Annual Reports of Indian Bank

Interpretation

The trend of net profit per employee has described in the above table. The NPE has analyzed in the above table. It was observed that the total net profit of Indian bank has decreased from Rs.1,58,113 lakhs in 2012-2013 to Rs.71,138 lakhs in 2015- 2016. In 2016-2017 the amount has increased to Rs.1,40,567 lakhs. The number of employees are fluctuated between 18,870 and 20,924 during the study period. The NPE resembles with trend of total net profit in the first four years of the study period, it decreased from 8.38 lakhs to 3.53 lakhs during the first four years. But in last year it increased to 6.72 lakhs. The total income has increased. The total expenses also increased which made the net profit to decrease. In 2016-17, the bank has taken steps and controlled the expenses so that the net profit has increased to Rs. 140,567 lakhs. As a result, the ratio has increased to 6.72 lakhs in last year of study period. The standard deviation of 1.64 and CV of 0.28 per cent denotes that there is stabilizing in the ratio.

BUSINESS PER BRANCH

(Rs in lakhs)

YEAR	TOTAL BUSINESS	NO OF BRANCHS	RATIO
2012-2013	247,622.70	2092	118.36
2013-2014	284,483.80	2253	126.27
2014-2015	295,088.81	2412	122.34
2015-2016	307,334.92	2565	119.82
2016-2017	310,208.56	2682	115.66
AVERAGE			120.5
STD DEV			3.61
CV			0.03

Source: Annual Reports of Indian Bank

Interpretation

The business per branch has augmented gradually from Rs.247,622.70 crores in 2012-13 to Rs. 310,208.56 in 2016-17 during the study period. The number of branches increased from 2092 to 2682 during study period. The business per branch was Rs.118.37 crores 2012-13. It increased to Rs.126.30 crores in 2013-14. In the last three years of study period, it recorded a diminution only and reached to Rs.115.66 crores in 2016-17. It is ascertained to maintain increasing trend the business per branch in the forth coming years.

NET PROFIT PER BRANCH

(Rs in lakhs)

YEAR	NET PROFIT	NO OF BRANCHS	RATIO
2012-2013	1,58,113	2092	75.58
2013-2014	1,15,894	2253	51.44
2014-2015	1,00,517	2412	41.67
2015-2016	71,138	2565	27.73
2016-2017	1,40,567	2682	52.41
AVERAGE			49.77
STD DEV			15.67
CV			0.31

Source: Annual Reports of Indian Bank

Interpretation

The net profit per branch has portrayed in the above table. The net profit of Indian bank has decreased from Rs.1,58,113 lakhs from 2012-13 to 2015-16. The last year of study period has recorded a net profit Rs.1,40,567 lakhs. The dual effort of bank, that is increase in income and decreased in expenditure made the increased gradually from Rs.2092 in 2012-13 to Rs.2682 in 2016-17. The ratio of branch productivity has recorded a fluctuation. It varied between 27.43 lakhs to 75.58 lakhs. The decreasing amount of net profit and proportions of branches to it made the ratio to fluctuated. It is suggested that the bank has to take steps in future to increase profit, so that the ratio of branch productivity also rise. The average ratio of 49.77 per cent has achieved in all the years of study period except in 2014-15.

FINDINGS

The following are the findings of the study.

- + Total funds increased from Rs.162,822.60 crores in 2012-13 to Rs.218,233.14 crores in 2016-17 of the study period.
- + Advances, fixed assets and other assets are gradually increased in the five years of the study period. Cash and balance with RBI, Balance with Bank and Investments have fluctuated.
- + The Business Per Employee has recorded a fluctuatory trend and it varied between 13.12 and 15.26 during the study period. Though, amount of total business has increased, difference in number of employee has made the ratio to fluctuate.
- + The advances per employee has recorded a fluctuated trend. It decreased in even years and increased in odd years. The advances per employee has varied from 5.6 crores to 6.48 crores during the study period.
- + The Net Profit Per Employee resembles with trend of total net profit in the first four years of the study period, it decreased from 8.38 lakhs to 3.53 lakhs during the first four years. But in last year it increased to 6.72 lakhs.
- + The business per branch was Rs.118.37 crores 2012-13. It increased to Rs.126.30 crores in 2013-14. In the last three years of study period, it recorded a dimunition only and reached to Rs.115.66 crores in 2016-17.

SUGGESTIONS

The following are the suggestions offered by the researcher through the study.

- + The banks should adopt more aggressive marketing strategies in line with the new private sector banks to add to the business volumes both in terms of deposits as well as advances.
- + To improve productivity per employee, Public Sector Banks have to either improve deposit and advances rate of the branches or to decrease the number of employee by introducing VRS scheme again.
- + Banks should develop the spirit of cost consciousness among its employees. It will also help in increasing the earnings. Better management information system, credit monitoring and cash management can result increase in productivity.
- + Prompt measures should taken to collect the over dues from the borrowers. This will help the banks to earn profit in future.
- + For improving operational efficiency, new technology should be introduced. Computerization and automation will help in reducing unproductive and costly operations.
- + The banks should take efforts to reduce the operating expenses by means of improving the efficiency of the non viable branches by utilizing some expert services.
- + The bank has to increase its total income in line with increasing number of branches.

CONCLUSION

Banking Industry performs as a catalyst for Industrial growth and agricultural growth, however, as well involves the existence and welfare of the citizens. Bank management ceaselessly manages the triumph, effectiveness, productivity and performances of the bank as good performances, high productivity and efficiency authorizes the triumphs of the bank management target as well as aims of bank. In a comparable

move toward performances of any economy depends upon the expediency and effectiveness of its Financial system of nation establishes its economic growth indicators. Profitability and productivity are the most important relevant parameters of any banking groups. An efficient management of banking operations aimed at ensuring growth in profits and efficiency requires up-to-date knowledge of all those factor which the bank's profit depends. The growth and interrelationship between productivity and profitability decides the success of banks. It is essential for a bank to give equal importance for productivity and profitability. The Banks must concentrate on per branch Productivity as well as per employee productivity. In nutshell, rightsizing of banks is the only solution to improve productivity in Indian banking industry to fulfil the goal of Indian financial sector reforms and to improve the Indian banking sector to the international standard.

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