

II. METHODOLOGY

2.1 Introduction :

This chapter explains the various methods and techniques used for data selection, analysis, interpretation and finally arriving at conclusions or deriving inferences. The main focus of the study is on the scenario analysis of different situations, passed through during the reform period under study. The study concentrates on formulation and execution of the profit strategies of the selected sample banks and analyses these strategies with the prevalent economic environment. The strategic initiatives, actions and reactions are evaluated both on expected results and outcomes. The study also concentrates on identifying the key macro economic variables, market movements, internal initiatives & responses and leverages available to the sampling banks to initiate strategic actions/reactions. At almost every stage of the study, the evaluation and interpretation are done on two way comparison: PSBs as a group for analyzing group behavior and sampling banks individually for intra-group comparison as well as with the PSB group. The deviations observed in the sampling banks in comparison with PSB group are recorded with detailed explanations, citing reasons for the observed deviations. The research work examines and explains in detail, the flow of the profit strategy origination, implementation and their results, in a systematic, sequential and lucid manner, with supporting reasoning and modulation. The Research project also probes the cause-effect of the key variables on the profit/ profitability and also their inter-relationship /inter-dependence. The study also brings out the impact-intensity of these key variables on the profits, both in absolute and in percent terms.

2.2 Scope and Rationale of the study

The public sector banks are the predominant players in the commercial banking space in India. Their pre-eminence is demonstrated again and again as the Government and RBI frequently consults them for policy formulations and implementations. Just like any other commercial organizations, the PSBs strive for generating profits, year after year, aiming consistent growth. The crux of the problem lies that the PSBs are required to function as commercial entities, fulfilling the social and economic objectives as per the state policy.

The performance of the PSBs need to be analyzed and reviewed, closely and deeply, as their performance has a cascading impact on the economic growth and development of the entire nation. Usually the PSBs performance is judged on two parameters: business performance and financial strength. The business performance of PSBs focuses mostly on volume growth, but as far as assets are concerned, it is growth in volume with quality maintenance. The business performance is expected to be resulted into achievement of targeted financial results. The Yard stick of the financial performance and in fact, the final resultant of the entire exercise is net profit. The net profit indicates the sustenance as well as the future growth prospects of the PSBs.

The present study is on the strategy formulations and implementations of PSBs. There is a need to analyze these strategic initiatives and actions with the expectations and end results. The research report analyses the prevalent scenario, details the facts and figures and reviews the profit performance. Identifying the common strategies and evaluating them on various parameters is done systematically. The study meets

the present requirement of comprehensive analysis on the current developments and finds out the evolving strategy shifts on profit front. . The research study also throws light on the future implications of the present strategic actions / shifts.

2.3 Objectives of the study:

The research study identifies the broad objectives, listed hereunder :

1. To study the role of PSBs in financial intermediation
2. To evaluate the importance of PSBs in SCBs
3. To analyze the impact of macro economic variables on the growth and development of PSBs.
4. To analyze the evolutionary process in growth and development of PSBs
5. To analyze the business performance vis-à-vis profit performance of PSBs
6. To evaluate asset-liability patterns on profit performance of PSBs
7. To analyze the momentum in asset –liabilities on earnings, expenditure, operating profit and net profit
8. To evaluate the strategic initiatives and actions of PSBs on their profit performance.

The study concentrates on the following action points so as to accomplish the defined broader objectives.

- a. Analyze the changes in interest rates and reserve ratios on profit performance of PSBs
- b. Evaluate the impact-intensity of business volumes on profits
- c. Analyze the significance & impact of asset quality and provisioning on net profit

- d. Analyze the factors and situations impacting the expansion /contraction of interest spread
- e. Evaluate the segmental focus on earnings
- f. Evaluate the performance of fee income on operating profit
- g. Derive the common strategies adopted by PSBs for better profit performance
- h. Analyze the strategic actions on profit and evaluate with the results
- i. Scenario analysis with current developments in profit strategies
- j. Find out the recent strategy-shifts for future profits

2.4 Assumptions

The following general assumptions put into consideration while making content as well as factor analysis:

1. Importance of PSBs has been gradually coming down in the banking industry
2. The Government relies heavily on PSBs for achieving social & economic policy objectives
3. Branch expansion of PSBs would be in tandem with SCBs
4. Growth in deposits of PSBs would be in tandem with SCBs
5. Asset expansion of PSBs would be in tandem with SCBs
6. Growth in Income of PSBs would be in tandem with SCBs
7. Control on expenditure of PSBs would be in tandem with SCBs
8. Growth in volumes will have same pace and momentum with profit growth in PSBs
9. PSBs heavily depend on interest spread for profit performance
10. Branch expansion has lost its relevance for profit performance.
11. PSBs are slow and less aggressive on strategic-action front
12. The gap between Profit strategies and results is significant in PSBs.

2.5 Research design

The present research study is a well-thought out plan of action with purpose in mind. "In fact, the research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data.(Kothari, 1994) The present research work is designed with objectivity in mind, logical in sequence, clarity in thought and orderliness in presentation. The research is designed taking into consideration the following factors: the availability of data, authenticity of data source, time constraint, cost factor and knowledge & skill level of the researcher. The added advantage to the researcher in this task is that he has more than 2 ½ decades professional experience in the banking industry with hands on experience relating to various facets of banking.

The present research is a descriptive and analytical type, wherein the analysis, evaluation, interpretation and conclusions are based on the already available data. The variables are mostly inter-dependant and inter-related and hence control on variables is limited. The present research study is databased and empirical in nature.

The research study is oriented towards drawing conclusions/inferences and hence, the approach of the research is quantitative and inferential.

2.6 Data collection / Source of data

The data collection is mainly of secondary in nature. The sources of data are: RBI publications on banking & finance, annual reports and press releases of the banks, books, journals, magazines, periodicals, newspapers, press reports, research

reports & presentations and various web-sites. Proper care with regard to authenticity, reliability, accuracy and manageability, is taken while collecting data. The data collection is not confined only to the period of study mentioned in the title, but extended up to March 2011. And data collection is mainly focused on the decade: 1999-2009 (period of which detailed data was available at the time of completion of data collection), so as to have a better impact/utility of the analysis made and conclusions drawn. The data collection relating to the chapter: Current developments & strategy-shifts are mainly from April 2009 to March 2011.

2.7 Sampling plan:

The sampling plan is a very important decisive step in the research process, as it decides the sample size and selection method of sampling that are critical components in the research –journey. While deciding the sample size, the factors considered are: sampling should be ideally representing the population and data collection should be manageable and analysis should be logical and conclusive. On the basis of the above criteria, the sample size decided to the present study is five larger banks, out of total 27 public sector banks i.e. the size of population as on 31st March 2009. The sampling size is finalized on the basis of two parameters: size of the balance sheet and pan India presence of the bank. The selected sample banks are: State Bank of India, Bank of Baroda, Bank of India, Canara Bank and Punjab National Bank. The sample selection is based on non-probability method and the sample selection is a deliberate action, keeping the objectives in mind and backed by supportive judgments. The sample selection is relatively easier in the present study as the population (PSBs) is a homogeneous group of 27 banks, having larger uniformity in their operating environment,

intensity of state control, manpower management, level of technology application and balance sheet management.

2.8 Data Analysis and interpretation:

The technique applied for data analysis is of content-analysis as the data collection is of secondary nature, which is based on the availability of content in the collected data. The data collected is arranged in a logical order by grouping, re-grouping and re-arranging it, in the form of tabulation and graphical presentation, so as to be useful for analysis. While re-grouping, rounding-off and totaling /deductions of the data, on few occasions, a difference of one crore in absolute figures or difference of one in per cent /decimal level, is noticed and retained it as it is as the impact of the difference on the data analysis and interpretation is negligible. The analytical method used is mainly analyzing the available historical data collection. The statistical tools used in the research study are variation analysis both in absolute and in percent terms, ratio analysis and trend analysis. As the researcher is a professional in the banking field itself, the reflections of his experience, expertise and interactions from top level executives to ground level banking functionaries, are instantly blended in data selection, analysis and interpretation areas. The in-depth comparative analysis is carried out for finding out the movements, variations and trends on various defined parameters. The analyzed data is interpreted meaningfully in deriving the common strategies adopted by PSBs and find out the strategy-shifts.

The limitation is that the data used for analysis was collected by different agencies/institutes and there is no uniformity of source and of intervals like periods, years, quarters and break-ups. In some cases, the revised data was taken

into account while carrying over the previous data in the balance sheet of the succeeding year. The reason for the revision was due to change in accounting norms by the RBI, which was considered and included in the subsequent balance sheet. The gross and net concepts in asset portfolio is to likely to effect the study to some extent, but their overall impact is negligible as the study is on broader perspectives and that too the time horizon considered is more than a decade.

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