Research Paper

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FACTORS PERTAINING TO THE BUSINESS PERFORMANCE OF SELECTED BANKS

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ABSTRACT

The banking industry consists of public, private, foreign, regional rural and co-operative banks. Nearly 80% of the market share is dominated by public sector banks. Over the years, Indian private sector banks and foreign sector banks have exhibited improvements in their profitability, asset quality, lower credit costs and healthy capital reserves. On the other hand, public sector banks (PSBs) are facing decline in their earnings growth, reduction in profit margins, asset quality deterioration and increase in credit costs. The credit growth of overall SCBs substantially decelerated to 8.6% in financial year 2016 from 10.0% in financial year 2015. This was majorly due to stress in the balance sheet of public sector banks. Public sector banks witnessed a credit growth of only 3.7% in comparison to a growth of 24.9% growth in by private sector banks and 12.7% by foreign sector banks.

The total business growth of all SCB also declined to 7.5% in financial year 2016 as compared to 10.0% in financial year 2015. The credit growth has been the lowest in the last 53 years. During financial year 2016, public sector banks accounted for 72.8% share in the total business, registering a growth of only 3.2% in comparison to 8.4% in financial year 2015. The slow growth of bank credit can largely be attributed to banks adopting an extra cautious approach on account of rising NPAs and weak investment demand from corporate sector. The overall deposits growth of all SCBs witnessed a significant slowdown to 7.5% in financial year 2015 as compared to 11% in financial year 2016. The slowdown in the deposit growth can be attributed to lower interest rates, availability of alternate avenues of savings, tightening of KYC norms and lower household saving rates in past two years.

The present article is to study the factors which lead the business performance of selected banks in Coimbatore city. The opinion was collected from 600 respondents from the various parts of Coimbatore city.

KEYWORDS: banking industry, asset, deposits, credit growth

FACTORIZATION OF BUSINESS PERFORMANCE

Factor analysis was applied to condense the variables or items into minimum number of manageable items or variables. Factor Analysis has been done with the two statistical tests of Bartlett's test and KMO test. The Kaiser-Meyer-Olkin (KMO) test of sampling adequacy signifies the proportionate variance of variables or items which may be caused through new factors. KMO value in excess of 0.50 reveals that factor analysis is absolutely apt for the particular data set. KMO and Bartlett's Test results are depicted in Table 1

Table 1 KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.828
Bartlett's Test of Sphericity	Approx. Chi-Square	21512.226
	df	1128
	Sig.	.000

The KMO value of 0.828 implies that the factor analysis applied for this data is valid. The significance value being less than 0.01 implies that the value is significant at 99 % level of confidence. The chi square value for Bartlett's test of Sphericity is 21512.226. High Chi-square value denotes that the variables have been aptly factored. Principal Component Analysis was used for extraction purpose, and varimax rotation is used as the standard rotation. Factors having greater than one as Eigen value are taken as reduced factors which now use as new factors for future analysis. Hence the resultant five factors are extracted from forty eight business performance variables. Variables have been grouped into five factors namely, "Trust", "Conviction", "Commitments", "Customer satisfaction towards loan practices" and "Profit emphasis".

Table 2 Communalities			
Description of variables		Initial	Extraction
BP1	The bank works very openly online.	1.000	.575
BP2	The bank has strong commitment to security measures.	1.000	.537
BP3	The bank's web page offers all the relevant information about all products and services.	1.000	.443
BP4	The bank ensures that an information transaction is protected during a connection.	1.000	.442
BP5	The bank keeps promises it makes to customers.	1.000	.400
BP6	The bank does not allow any third person to access to customer's personal information	1.000	.626
BP7	Customers have full confidence in your bank's reliability.	1.000	.638
BP8	There are clear explanations of security on your bank's website.	1.000	.645
BP9	The bank site is properly secure for credit or debit card information.	1.000	.675
BP10	The bank administrators respond very quickly online.	1.000	.653
BP11	The bank considers customer welfare when making important decisions.	1.000	.603
BP12	The bank provides detailed online terms and conditions.	1.000	.614
BP13	The bank's login process is secure.	1.000	.522
BP14	Bank practices that harm customers' self esteem or destroy trust are restricted in your bank	1.000	.542
BP15	The bank uses appropriate safeguards (privacy protection measures) to ensure customers of a successful transaction.	1.000	.569
BP16	Customers believe in the online information that your bank provides to them.	1.000	.575
BP17	The bank administrators help the customer in any query online.	1.000	.570
BP18	The customers feel confident when using e-banking services with your bank.	1.000	.494
BP19	The bank gives customers a feeling of trust.	1.000	.555
BP20	Customers are committed to deal online with your bank because of the performance.	1.000	.509
BP21	It pays of economically to be a customer of the bank.	1.000	.428
BP22	Customers' commitment to the bank is determined by their continuous satisfaction.	1.000	.495
BP23	Customers take pleasure in being a customer of the bank.	1.000	.492
BP24	Commitment is due to reasonable price of the bank.	1.000	.455
BP25	Customers are committed to buy from the bank.	1.000	.306
BP26	Customers want to remain with the bank because they feel a strong sense of belonging with the bank.	1.000	.356
BP27	Customers continue to deal online with the bank because they feel a strong attachment to your bank.	1.000	.552
BP28	Customer's commitment is influenced by the positive attitude of the bank's online administrators.	1.000	.596
BP29	Customers are willing 'to go the extra mile' to continue with the bank.	1.000	.498
BP30	The bank has customer's best interest in mind.	1.000	.424
BP31	The bank's image determines customer's commitment online.	1.000	.459
BP32	Customers are committed to deal online with the bank because of your best online services.	1.000	.456

BP33	The bank administrators understand what online service attributes customers value most.	1.000	.509
BP34	Customers are satisfied with the loan services of the bank.	1.000	.667
BP35	The bank provides incentives to customer for continuous dealing online.	1.000	.729
BP36	The bank objectives are driven by customer satisfaction.	1.000	.651
BP37	The bank has a system of monitoring, analyzing and solving customer problems online.	1.000	.576
BP38	Customer focus and better online service quality are driving forces behind day to day operations of the bank.	1.000	.440
BP39	Customers of the bank believe that their online transactions completed timely.	1.000	.534
BP40	The bank's online infrastructure is good.	1.000	.570
BP41	On the whole, doing transaction is very profitable.	1.000	.590
BP42	The bank's deposits have been increased by using online system.	1.000	.537
BP43	Administrators of the bank can quickly determine the profitability of various schemes.	1.000	.378
BP44	The bank's profits have been increased by providing online payment facilities to customers.	1.000	.429
BP45	Administrators of the bank can quickly determine the profitability of major customers.	1.000	.491
BP46	Administrators of the bank can quickly determine the profitability of your branch.	1.000	.512
BP47	The bank believes that all your services must be profitable.	1.000	.585
BP48	The bank administrators can quickly determine the profitability of your bank.	1.000	.564
Extraction Method: Principal Component Analysis.			

The variance and eigen value extracted through each factor of business performance factors are shown in Table 3

Table 3 total variance explained									
Component	Initial eigenvalues			Extraction sums of squared loadings			Rotation sums of squared loadings		
	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %
1	13.391	27.898	27.898	13.391	27.898	27.898	6.913	14.402	14.402
2	4.284	8.924	36.822	4.284	8.924	36.822	5.325	11.094	25.496
3	3.178	6.620	43.442	3.178	6.620	43.442	4.714	9.821	35.317
4	2.362	4.921	48.363	2.362	4.921	48.363	4.292	8.943	44.260
5	2.251	4.690	53.053	2.251	4.690	53.053	4.221	8.793	53.053
6	2.080	4.334	57.387						
7	1.513	3.153	60.540						
8	1.456	3.033	63.573						
9	1.190	2.479	66.052						
10	1.134	2.362	68.414						
11	.997	2.078	70.492						
12	.936	1.950	72.442						
13	.915	1.906	74.348						
14	.869	1.810	76.158						
15	.770	1.605	77.763						
16	.747	1.557	79.320						
17	.680	1.417	80.737						
18	.664	1.384	82.121						
19	.600	1.250	83.371						
20	.570	1.188	84.559						
21	.533	1.110	85.669						
22	.522	1.088	86.758						
23	.494	1.028	87.786						

24	.481	1.002	88.788						
25	.444	.924	89.713						
26	.418	.870	90.582						
27	.401	.836	91.418						
28	.390	.813	92.231						
29	.368	.766	92.997						
30	.359	.748	93.745						
31	.316	.657	94.402						
32	.293	.610	95.012						
33	.274	.571	95.583						
34	.249	.520	96.103						
35	.228	.476	96.579						
36	.212	.442	97.020						
37	.201	.419	97.439						
38	.170	.354	97.793						
39	.159	.332	98.125						
40	.152	.316	98.441						
41	.143	.298	98.739						
42	.130	.270	99.009						
43	.102	.212	99.221						
44	.090	.187	99.408						
45	.087	.182	99.590						
46	.082	.172	99.762						
47	.076	.159	99.921						
48	.038	.079	100.000						
Extraction method: principal component analysis.									

Only those components are considered as principal components which have an eigen value greater than 1. Here, the first five components have an eigen value of more than 1, which explains 53.053% of total variance, and the remaining components explain 46.947% of total variance. The below table presents the total variance of the observed variables explained by each of the principal components / factors. For arriving at possible factors from total 48 variables, rotation was converged in 5 iterations through Varimax Rotation Technique.

Table 4 Rotated Component Matrix[a]						
Business performance factors	**Component**					**Labeled as**
	1	**2**	**3**	**4**	**5**	
The bank works very openly online – T1	0.720					Trust
The bank's web page offers all the relevant information about all products and services – T3	0.639					
The bank keeps promises it makes to customers – T5	0.596					
Customers have full confidence in your bank's reliability – T7	0.687					
The bank site is properly secure for credit or debit card information – T9	0.675					
The bank considers customer welfare when making important decisions – T11	0.690					
The bank's login process is secure – T13	0.660					
The bank uses appropriate safeguards (privacy protection measures) to ensure customers of a successful transaction – T15	0.695					
The bank administrators help the customer in any query online – T17	**NR**					

The bank has strong commitment to security measures – Con2		0.696			Conviction
The bank ensures that an information transaction is protected during a connection – Con4		0.633			
The bank does not allow any third person to access to customer's personal information – Con6		0.633			
There are clear explanations of security on your bank's website – Con8		0.649			
The bank administrators respond very quickly online – Con10		0.691			
The bank provides detailed online terms and conditions – Con12		0.585			
Bank practices that harm customers' self esteem or destroy trust are restricted in your bank – Con14		0.688			
Customers believe in the online information that your bank provides to them – Con16		0.587			
The customers feel confident when using e-banking services with your bank – Con18		0.593			
Customers take pleasure in being a customer of the bank – C4			0.671		Commitment
Customers are willing 'to go the extra mile' to continue with the bank – C10			0.587		
Customers are committed to deal online with your bank because of the performance – C1			NR		
Customers are committed to deal online with the bank because of your best online services – C13			0.584		
The bank has customer's best interest in mind – C11			NR		
Customers continue to deal online with the bank because they feel a strong attachment to your bank – C8			0.622		
Customer's commitment is influenced by the positive attitude of the bank's online administrators – C9			0.649		
The bank's image determines customer's commitment online – C12			NR		
It pays of economically to be a customer of the bank – C2			0.551		
Customers' commitment to the bank is determined by their continuous satisfaction – C3			0.690		
Customers want to remain with the bank because they feel a strong sense of belonging with the bank – C7			NR		
Customers are committed to buy from the bank – C6			NR		
Commitment is due to reasonable price of the bank – C5			0.649		
Customer focus and better online service quality are driving forces behind day to day operations of the bank – CS6				NR	Customer Satisfaction towards loan practices
Customers of the bank believe that their online transactions completed timely – CS7				0.676	

The bank provides incentives to customer for continuous dealing online - CS3		0.601	
Customers are satisfied with the loan services of the bank – CS2		0.567	
The bank administrators understand what online service attributes customers value most – CS1		0.614	
The bank has a system of monitoring, analyzing and solving customer problems online – CS5		0.512	
The bank objectives are driven by customer satisfaction – CS4		0.598	
The bank's online infrastructure is good – CS8		0.747	
The bank administrators can quickly determine the profitability of your bank – PE8			0.641
Administrators of the bank can quickly determine the profitability of major customers – PE5			0.564
On the whole, doing transaction is very profitable – PE1			0.730
The bank's deposits have been increased by using online system – PE2			0.685
Administrators of the bank can quickly determine the profitability of various schemes – PE3			NR
Administrators of the bank can quickly determine the profitability of your branch – PE6			0.547
The bank's profits have been increased by providing online payment facilities to customers – PE4			0.525
The bank believes that all your services must be profitable – PE7			0.632

(Right column spanning label: Profit Emphasis)

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. a. Rotation converged in 9 iterations. NR – Not Rotated.

Factor 1 : Trust

The variables, The bank works very openly online – T1, The bank's web page offers all the relevant information about all products and services – T3, The bank keeps promises it makes to customers –T5, Customers have full confidence in your bank's reliability – T7, The bank site is properly secure for credit or debit card information – T9, The bank considers customer welfare when making important decisions – T11, The bank's login process is secure – T13, The bank uses appropriate safeguards (privacy protection measures) to ensure customers of a successful transaction – T15 and The bank administrators help the customer in any query online – T17 constitute factor I which accounts for 27.878% of variance.

Factor 2 : Conviction

The variables, The bank has strong commitment to security measures – Con2, The bank ensures that an information transaction is protected during a connection – Con4, The bank does not allow any third person to access to customer's personal information – Con6, There are clear explanations of security on your bank's website – Con8, The bank administrators respond very quickly online – Con10, The bank provides detailed online terms and conditions – Con12, Bank practices that harm customers' self-esteem or destroy trust are restricted in your bank – Con14, Customers believe in the online information that your bank provides to them – Con16 and The customers feel confident when using e-banking services with your bank – Con18 constitute factor II which accounts for 8.924% of variance.

Factor 3 : Commitment

The variables, Customers take pleasure in being a customer of the bank – C4, Customers are willing 'to go the extra mile' to continue with the bank – C10, Customers are committed to deal online with your bank because of the performance – C1, Customers are committed to deal online with the bank because of your best online services – C13, The bank has customer's best interest in mind – C11, Customers continue to deal online with the bank because they feel a strong attachment to your bank – C8, Customer's commitment is influenced by the positive attitude of the bank's online administrators – C9, The bank's image determines customer's commitment online – C12, It pays of economically to be a customer of the bank – C2, Customers' commitment to the bank is determined by their continuous satisfaction – C3, Customers want to remain with the bank because they feel a strong sense of belonging with the bank – C7, Customers are committed to buy from the bank – C6 and Commitment is due to reasonable price of the bank – C5 constitute factor III which accounts for 6.620% of variance.

Factor 4 :Customer Satisfaction towards loan practices

The variables, Customer focus and better online service quality are driving forces behind day to day operations of the bank – CS6, Customers of the bank believe that their online transactions completed timely – CS7, The bank provides incentives to customer for continuous dealing online - CS3, Customers are satisfied with the loan services of the bank – CS2, The bank administrators understand what online service attributes customers value most – CS1, The bank has a system of monitoring, analyzing and solving customer problems online – CS5, The bank objectives are driven by customer satisfaction – CS4 and The bank's online infrastructure is good – CS8 constitute factor IV with 4.921% of variance.

Factor 5 : Profit Emphasis

The variables, The bank administrators can quickly determine the profitability of your bank – PE8, Administrators of the bank can quickly determine the profitability of various schemes – PE3, Administrators of the bank can quickly determine the profitability of major customers – PE5, The bank believes that all your services must be profitable – PE7, The bank's profits have been increased by providing online payment facilities to customers – PE4, On the whole, doing transaction is very profitable – PE1, Administrators of the bank can quickly determine the profitability of your branch – PE6 and The bank's deposits have been increased by using online system – PE2 constitute factor V which accounts for 4.690% of variance.

Segmentation of Business performance

Cluster Analysis has been employed to group business performance studied into clusters based on their resemblance to the five factors of Trust, Conviction, Commitments, Customer satisfaction towards loan practices and Profit emphasis. Final Cluster centers have been displayed in Table 5

Table 5 Final Cluster Centers			
Business performance	Cluster		
	1	2	3
Trust	4.11 (I)	2.41 (III)	3.33 (II)
Conviction	4.13 (I)	2.31 (III)	3.42 (II)
Commitments	4.09 (I)	2.74 (III)	3.34 (II)
Customer satisfaction towards loan practices	4.04 (I)	2.21 (III)	3.07 (II)
Profit emphasis	4.04 (I)	2.14 (III)	3.18 (II)

CONCLUSION

Based on the data displayed in the above table, Business performance factors have been clustered into three groups. The first cluster may be designated as "High performance group" as the mean value of the components of this cluster is high when compared to the other cluster. The second cluster can be labeled as "Less performance group" as the mean value indicating the bank service of this group is less on a five point scale. The third cluster can be labeled as "Moderate performance group" as the mean value indicating the business performance of this group is moderate on a five point scale.

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