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Behavioural and Operational Characteristics in Institutional Banking in India: An Empirical Generalization.

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Abstract

In the cut throat competitive world of 21st century entrepreneurs have great ideas but either they don't have the funds to invest in their ideas or due to their risk averse nature they don't want to risk their own money by investing completely in the business, hence the banks and financial institutions have attained immense importance funding the ideas of young and budding entrepreneurs, in common parlance this is termed as Corporate Banking. In business parlance money is regarded as the blood of the business hence consequently banking is considered as heart which pumps the blood in the business. The objective of this research is to understand the Banking habits & Financial Tie-ups (Services obtained by the corporate from the Banks) of the Corporate in India and to investigate the reasons for the same. Research also finds out customers' perception about the service provided by the private and public sector banks and the factors that discriminate between these two types of banks. It will also find out the challenges that banking industry of India is facing from the customers thereby understanding & defining critical success attributes for increasing Market share & having satisfied customers in the field of Corporate Banking in India.

1. INTRODUCTION

It is very essential for an economy to mobilize the funds. Banking industry of a country acts as the mobilizer of funds in an economy. In India generally the Banking Industry is bifurcated primarily on the basis of Corporate Banking and Retail Banking (Kumar et al. 2010). In the cut throat competitive world of 21st century entrepreneurs have great ideas but either they don't have the funds to invest in their ideas or due to their risk averse nature they don't want to risk their own money by investing completely in the business, hence the banks and financial institutions have attained immense importance funding the ideas of young and budding entrepreneurs, in common parlance this is termed as Corporate Banking. In business parlance money is regarded as the blood of the business hence consequently banking is considered as heart which pumps the blood in the business (Pozsar 2013).

As expressed earlier obtaining funds is an important job for an entrepreneur but the means of finance is more important to reduce the overall financial risk of the business. Hence the optimal mix of debt and equity is important; another important aspect is from where to raise the debt. Generally Corporate with high credit ratings raise debt through issuing debentures or accepting public deposits for meeting their long term requirements of funds, however even the big corporate have to resort to bank or financial institutional financing for their day to day requirements of funds (Marqus and Raynard 2015). Hence the importance of the banks for corporate finance increases.

Since the time of Nationalization of banks in India the only dominant players in the banking sectors were the nationalized banks, however after the government of India allowed the private participation in the banking industry the private banks have tried to establish a foothold on the banking industry, hence this research has been conducted to know the competitive and perceptual position of the Public sector Nationalized banks and Private sector banks (Mohan and Roy 2017).

The objective of this research is to understand the Banking habits & Financial Tie-ups (Services obtained by the corporate from the Banks) of the Corporate in India and to investigate the reasons for the same. Research also finds out customers' perception about the service provided by the private and public sector banks and the factors that discriminate between these two types of banks. It will also find out the challenges that banking industry of India is facing from the customers thereby understanding & defining critical success attributes for increasing Market share & having satisfied customers in the field of Corporate Banking in India. The existing players can design corporate products so as to suit the requirements of their existing and potential customers, formulate their operational strategies and focus upon the key success factors to increase their market share and exceed the expectation of their customers which ultimately results in a win-win situation for the bank and the customers. This research will also act as a guiding factor for the new potential players who are considering penetration in the Banking Industry in India so that they can unswervingly focus upon the critical success factors identified by this research.

2. LITERATURE REVIEW

Berg (1998) analyses the influence of other banks' behaviour in both retailer and corporate segment. The study states that in the retaliatory behaviour in case of retail market is much stronger compared to retaliatory behaviour in case of corporate segments. The authors attribute the reasons for such behaviour to information availability differential between retailer and corporate segments. Barton et al. (2004) talks about the financial crises faced by banks and what that a bank should do to manage the crises and therefore not to be affected by it. The authors suggest that ideally banks should be careful and look into the future while taking any steps in the present. According to them the formula for a successful turnaround is straightforward and similar around the world: monitor liquidity, rein in bad lending practices, and find creative ways to add fresh capital. Bailey et al. (2003) said that Asian countries especially India and China have embraced the plastic money culture very soon but the defaults are also rising points out this article. The authors suggest that information about credit history, good loans going bad etc if shared between the banks can help reduce the non performing assets. They advocate the concept of credit bureaus who keep all the information regarding the customers and which is accessible by all the banks. Berger et al. (2002) study found that balance sheet of many of the Asian banks some of which are Indian banks have assets which are not performing and are expected to go bad. This is estimated o be around $2 trillion which accounts to almost 30% of the GDP of Asia. The authors suggest three measures so that banks can make the loans good and clean their balance sheets. They are

- break the link between loan origination and collection
- tough regulation
- government must not support some borrowers even if they are insolvent

Beshouri (2003) study drives home the point that many Indian banks are heavily investing in retail business and are not concentrating on corporate customers. The author says that this is short-sightedness because corporate customers are more profitable compared to retail customers. Therefore the author suggests that the Indian banks must move from unprofitable retail businesses to more profitable corporate customers. Ivana et al. (2003) opined that the importance of relationship in corporate banking sector. It gives the example of smaller Chinese banks which developed a niche strategy by developing a deep relationship with the customers. The research found that the long term orientation was positively co- related with trust commitment and relationship with corporate sector. It points out that smaller banks in other countries can also focus on relationship with the corporates to develop niche areas and long term relationship with the companies. Foglia (1998) examines the concept of loan syndication in case of corporate loans. According to the authors if a firm takes a loan from only one bank the interest rates could be lower thus resulting in benefit to the customer. But many customers borrow from different banks to add up to the same amount. This phenomenon the authors opine happens in case of fragile companies. In order to evaluate the company so as to find whether it is fragile or not they suggest a model using multivariate techniques. Luis et al. (2005) discussed the interaction processes and short-term behaviours and motives in long-term relationships between banks and their corporate clients. The paper provides a framework for corporate managers and bankers alike to better understand the process of banking relationships. It highlights some factors that should be monitored as they impact on buying behaviour and on the interplay between banks and firms. Originality/value - The authors highlighted some "stress" factors that can impact on buying behaviour and on the interplay between banks and firms, providing a new insight about the instability of business relationships in the banking business, and suggests some factors that can generate or intensify that instability. Katherine (2001) discussed the impact of structural reorganization in a bank facilitating centralized units for increased efficiency technological advances etc. This helps in structuring the products in such a way that they can be marketed through many channels. This concept directly challenges the well known relationship banking model (Fatma and Rahman 2016).

David et al. (2004) states that foreign banks have a golden opportunity in China, who has similar kind of financial configuration as India has, by tapping the affluent customers (HNWI's). The authors point out that only 2% of the customers contribute to more than 50% of the retail business. The suggestion given by the authors is in contrast to bottom of the pyramid concept of C.K Prahlad for the Indian market. Moreover, with the easing banking norms in India though at a slow pace these banks can make huge profits by doing so. Kazuhiko (2006) found in his study that many international banks are looking at the Chinese Banking industry in particular and emerging countries in general, which is yet to open up but is expected to open up due to WTO market opening commitments. Turnbull (1982) summarized the results of a research undertaken to use of international financial services by subsidiaries of UK based companies to give his recommendation for emerging markets and found out the factors which affect the choice of supplier and the relative importance of these factors. The important factors were found to be relationship, attitude of the company towards the financial management of subsidiaries**.** The research concludes that marketing of corporate banking to the headquarters would be more profitable than to individual subsidiaries.

Santomero (1984) study with respect to capital rationing, the author opines that presence a single interest rates for all the customers attracts all the honest and dishonest customers. Therefore author advocates different interest rates. The second conclusion is that in periods of constraints authors demonstrate that due to higher elasticity of demand in case of large customers with alternative funding options these large customers receive less credit preference. In line with the above points best customers of bank are those who yield supernormal rate of return in present value terms (Huang 2007).

The above researches gave the direction to the research, the research was primarily divided on two factors firstly on the variables attributed to core products and services provided by the banks and secondly the allied services and value added propositions provided by some of the banks and proposed in the articles. However, none of the available literature said about Indian corporate banking habit in particular by looking out the dimensions and their effect on corporate banking habits. On the basis of the literature review it can be hypothesized that the existing scenario in the corporate banking field at India should have similar dimensions in general, but specific attitudes in particular which needs to be captured through empirical studies.

3. RESEARCH QUESTIONS

On the basis of the above discussion, following research questions have been formed.

- What are the Banking and Financial Tie-ups (Services obtained by the corporates from the Banks) of Corporates in India? What are the reasons for such association?
- How do the customers perceive the services provided by the Public Sector Banks and Private Sector Banks in India? What are the significant differentiating factors between these two types of banks?
- What are the challenges being faced by the various banks in offering tangible and intangible services to its corporate customers in India?

4. METHODOLOGY AND DATA ANALYSIS

A secondary research to be conducted for understanding the observed and the latent variables and also to check any past studies conducted in the same field. After identifying the variables affecting the study from the scholarly articles primary research to be conducted for finalizing the variables to be included for the purpose of our study. After collection of qualitative data a questionnaire was framed for conducting one-on-one depth interviews from the target audiences i.e. the top / middle level of management in the corporates. Once the primary data collection is complete the data was analyzed and then using multivariate techniques a detailed analysis of the data was conducted to find out the answers to the research questions of the study.

After the data collection is over, data to be prepared and checked for adequacy for proper analysis. The questionnaire filled up by the respondents to be screened and checked for errors. Incomplete questionnaires to be rejected. The screened data to be then transcribed in the SPSS Software where first the Variables (Annexure 1) were defined in the Variable View Sheet and secondly the data was entered pertaining to each variable for each respondent. The proposal is to collect sample size is 300.

Variables considered for conducting the research

Behavior of bank staff	Problem solving capabilities of RM
Queues for service	Frequency of interaction with RM
Flexibility of services	Quality of information reports
Negotiation possibility	Quality of research reports
Time and efficiency of services	Lack of individual approach
Quality of allied services	Courteous and polite services
Range of products and services	Proximity of bank
Innovations of services	Quality of products and services
Banking knowledge competence	Complicated forms and procedures
Pricing of products	Personalized services
Network of Banks	Bank Co-operation
Time Spent in Queue	Confidentiality of Information

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