

Production Efficiency Differences Between Large And Small Banks

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Management involves the critical entrepreneurial function besides routine supervision. Since entrepreneurship is not an explicit input, its impact on output gets reflected by the neutral efficiency parameter in a neoclassical production function framework. Employing the Cobb-Douglas production function, per (standard) branch income differences between the 14 Large (LBC) and 13 Small (SBC) Bank Groups was accounted for in terms of differential neutral output efficiency, non-neutral resource efficiency use and resource input use per (standard) branch. During 1974-76, the LBC was found to have an edge over the SBC in neutral output efficiency which pattern reversed during 1984-86. The opposite was true with respect to the role of non-neutral resource efficiency use. The contribution of differential input use was in favour of the LBC though the size of the difference declined in convergence over the decade.

Introduction

Commercial banking in India has undergone a significant change. As a result, the importance of improved efficiency has increased substantially for the survival and sustained viability of the commercial banks. As product innovations and financial deregulation take place, competitive pressures mount to force banks to operate more efficiently. At any given time not all banks will be able to employ the best practice methods to achieve a high level of performance. Successful banks will adapt to the changing environment while those that are unable to do so will have difficulty surviving. The crucial factor that makes the difference is the management function. Management not only involves leading and organising but also planning and controlling for efficiently in day-to-day operations. Many studies have been