

## Indian Banking: Value Creation for Competitive Advantage in the Global Environment

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**Abstract: Problem statement:** How banking Sector will face the challenges posed by the global environment. The paper focuses on the competitive strategies of the banking sector and how the sector derives competitive advantage by adopting different strategies because the sector plays an important role in any economy. **Approach:** The study includes a descriptive research by collecting the information from different banks and analyzing it in order to describe the strategies followed by banks to face the global challenges. **Results:** The study helps in finding that the strategies followed by banks plays a very significant role and banking sector functioning becomes smooth and in turn it helps in the development of the country too. **Conclusion:** These strategies helps the banking sector to create the healthy financial system as global challenges provide the opportunities to banking sector to grow in both qualitative as well as quantitative.

**Key words:** Information technology, corporate governance, corporate social responsibility

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### INTRODUCTION

India has a financial system that is regulated by independent regulators in the sectors of banking, insurance, capital markets, competition and various services sectors. A bank is an institution that deals in money and provides other financial services. India's economy has been one of the stars of global economics in recent years. India has a well developed banking system. The banking system in India is significantly different from that of other Asian nations because of the country's unique geographic, social and economic characteristics. The banking industry has moved from an era of rigid controls and government interference to a more market-governed system (Allen *et al.*, 2007). In a number of sectors Government plays the role of regulator. Banking sector is reckoned as a hub and indicator of the financial system. As a pillar of the economy, this sector plays a major role in the economic development of the country. The geographical pervasiveness of the bank coupled with the range and depth of their services make the system a necessary medium in every day transactions. The focus of all banks in India has shifted their approach to 'cost', determined by revenue minus profit. This means that all the resources should be used efficiently to enhanced the productivity and ensure a win-win

situation. Banks primarily provide financial services to customers while enriching investors. Banks act as payment agents by conducting checking or current accounts for customers, paying cheques drawn by customers on the bank and collecting cheques deposited to customer's current accounts. Banks also enable customer payments via other payment methods such as telegraphic transfer and ATM.

Banks borrow money by accepting funds deposited on Current Accounts, by accepting term deposits and by issuing debt securities such as Banknotes and Bonds. Banks lend money by making advances to customers on current accounts, by making installment loans and by investing in marketable debt securities and other forms of money lending. Banks provide almost all payment services and a bank account is considered indispensable by most businesses, individuals and governments. Reserve Bank of India (RBI) established in 1935 is the Central Bank. RBI is regulator for financial and banking system, formulates monetary policy and prescribes exchange control norms. The Banking Regulation Act, 1949 and the Reserve Bank of India Act, 1934 authorize the RBI to regulate the banking sector in India. The banking scenario in India has already gained all the momentum, with the domestic and international banks gathering pace.

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A global culture is becoming increasingly emergent. Globalisation has brought in new opportunities to developing countries. The banking industry is slated for growth in future with a more qualitative rather than quantitative approach.

**Challenges posed by global environment to Indian banks for competitive advantage:** The Indian banking system has undergone significant structural transformation since the 1990s (Prasad and Ghosh, 2005). Banking industry should focus on having a small number of large players that can compete globally and can achieve expected goals rather than having a large number of fragmented players. Globalization describes an ongoing process by which regional economies, societies and cultures have become integrated through a globe-spanning network of communication and trade. The pace of global integration has dramatically increased. Unprecedented changes in communications, transportation and computer technology have given the process new impetus and made the world more interdependent than ever. Globalization of the banking industry took place on a major scale. The banking system of India should not only be hassle free but it should be able to meet the challenges occur due to globalization. Banking sector in India is expanding at an extremely faster pace, with more and more banks realizing the benefits offered by globalization. In recent years, the Reserve Bank has endeavored to improve the efficiency of the financial system by ensuring the presence of a safe, secure and effective payment and settlement system (Leeladhar, 2006). Globalization has offered a number of advantages to the banking sector in India.

**Information technology:** Information Technology is increasingly becoming an invaluable and powerful tool driving development, supporting growth, promoting innovation and enhancing competitiveness. Technology is knowledge of methods to perform certain tasks or solve problems pertaining to products or services. Technology is knowledge of methods to perform certain tasks or solve problems pertaining to products or services. Information Technology has brought a sea change in the functioning of the banks (Mohan, 2006). The changes that new technologies have brought to banking are vast. Advances in technology are allowing for delivery of banking products and services more conveniently and effectively than ever before thus creating new bases of competition. Indian banking industry, today is in the midst of an IT revolution. The IT has opened flood gates for global economic activity. The modern IT has enough capabilities to enable banks,

financial institutions and others to bring about the desired changes.

Information technology has been the cornerstone of recent financial sector reforms aimed at increasing the speed and reliability of financial operations and of initiatives to strengthen the banking sector. It is information technology which enables banks in meeting such high expectations of the customers who are more demanding and are also more techno-savvy. They demand instant, anytime and anywhere banking facilities. Most banks in India have used IT to achieve superior business performance, driven mainly by the cost advantage in India, superior IT governance and competent outsourcing. Indian Banking Industry focus more on value-added activities such as building new infrastructure like ATM networks and modern core banking systems; customer service channels including call centers, Internet banking and sophisticated risk-assessment and pricing techniques etc. IT has been providing solutions to banks to take care of their accounting requirements. This has, however, now given way to large scale usage in services aimed at the customer of the banks. With IT revolution, banks are increasingly interconnecting their computer systems not only across branches in a city but also to other geographic locations with high-speed network infrastructure and setting up local area and wide area networks and connecting them to the Internet. Centralized operations and process automation using core banking applications and IP-based networks improve efficiency and productivity levels tremendously. Core banking applications help a bank to shift from 'branch banking' to 'bank banking.' This basically means that a customer will be treated as a bank's customer than just the customer of a particular branch which was the case earlier. Advances in IT have also resulted in new database technology and data-mining techniques that may expand the range of services that banks offer their customers. This technology allows firms to use customer information gathered in one part of their company, say banking, to increase sales in the others. Also, IP-based networks lets a bank offer multiple services over the same network, resulting in costs savings. As a result, information systems and networks are now exposed to a growing number. IT is central to banking. This is one of the major reasons why Indian banking industry has been able to survive, prosper and adapt in an increasingly competitive space.

**Mergers and acquisitions:** Mergers and Acquisitions and Corporate Restructuring are a bigger part of the corporate finance world. Mergers and Acquisitions

refers to the aspect of corporate strategy, corporate finance and management dealing with the buying, selling and combining of different companies that can aid, finance, or help a growing company in a given industry grow rapidly without having to create another business entity. The principal benefits from mergers and acquisitions can be listed as increased value generation, increase in cost efficiency and increase in market share. Mergers and Acquisitions often lead to an increased value generation for the company. It is expected that the shareholder value of a firm after mergers or acquisitions would be greater than the sum of the shareholder values of the parent companies. Mergers and Acquisitions generally succeed in generating cost efficiency through the implementation of economies of scale. It may also lead to tax gains and can even lead to a revenue enhancement through market share gain. An increase in market share is one of the possible benefits of mergers and acquisitions. In case a financially strong company acquires a relatively distressed one, the resultant organization can experience a substantial increase in market share. The new firm is usually more cost-efficient and competitive as compared to its financially weak parent organization.

The Indian banking system has been undergoing major changes that have affected both its structure and the nature of strategic interaction among banking institutions. Different strategies have been adopted to tackle the demands of this new operating environment; one such strategy having been is mergers and acquisitions.

Merger will help banks with added money power, extended geographical reach with diversified branch Network, improved product mix and economies of scale of operations. Merger will also help banks to reduced them borrowing cost and to spread total risk associated with the individual banks over the combined entity. Revenues of the combine entity are likely to shoot up due to more effective allocation of bank funds. The motives for bank mergers and acquisitions are manifold and highly diverse. Some motives focus primarily upon the maximization of shareholder utility through expected post-merger gains. The first mega merger in the Indian banking sector that of the HDFC Bank with Times Bank, has created an entity which is the largest private sector bank in the country. Mergers and acquisitions may also be driven by the objective of risk reduction through greater diversification that can benefit both bank shareholders and management through greater stability of cash flows.

**Corporate governance:** Corporate Governance became an important area of concern for regulators, industrialists and investors alike (Varma, 1998). The

concept of corporate governance, primarily hinges on complete transparency, integrity and accountability of the management. There is also an increasingly greater focus on investor protection and public interest. Corporate governance is concerned with the values, vision and visibility. It is about the value direction of the organization, ethical norms for its performance, the direction of development and social achievement of the organization and the visibility of its performance and practices. The banking sector in India is significantly different from that of other Asian nations, because of the country's unique geographic, social and economic characteristics. The Special nature of banking requires not only a broader view of Corporate Governance but also government intervention in order to restrain the behavior of bank management (Arun and Turner, 2004). Banking strategies are presently undergoing various transformations, as the overall scenario has changed over the last couple of years.

Corporate governance is particularly important for banks, given the bank's important role in the financial sector. The rapid changes brought about by globalization, deregulation and technological advances are increasing risks in the banking systems. Banks and the payment system are important ingredients of a financial system. The nature of transactions that banks are involved in expose them to a variety of risks. Good Corporate Governance will help banks to operate without excessive risk exposures and provide a healthy financial system.

The most accepted corporate mantra today is that the better the CG practice of an organization the better the shareholder and stakeholder value creation. The same is also applicable to the emerging financial sector of the country, particularly the banking industry.

The RBI has taken various steps to improve corporate governance standards in banks. Transparency and disclosure standards are important constituents of a sound corporate governance mechanism. Transparency and disclosure standards need to be further broad-based in consonance with improvements in the capability of market players to analyze the information objectively. RBI also brings out the periodic data on "Peer Group Comparison" on critical ratios to maintain peer pressure for better performance and governance. Reserve Bank in keeping with Indian conditions has set two more trigger points namely Non-Performing Assets (NPA) and Return On Assets (ROA) as proxies for asset quality and profitability. These trigger points will enable the intervention of regulator through a set of mandatory action to stem further deterioration in the health of banks showing signs of weakness.

**Corporate social responsibility:** It is a concept whereby large organizations consider the interests of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders, as well as the environment. CSR holds organizations to a higher moral and ethical standard bearing in mind the overall interests of society in the operations of its day-to-day business.

Corporate Social Responsibility (CSR) is gaining importance in the world of globalization with increased number of informed citizens and changing social outlook. CSR activities are now being undertaken throughout the globe (Carroll, 1999). With a strong linkage and correlation between CSR and business, between social empowerment and commercial sustainability. CSR commitments and activities typically address aspects of a firm's behavior (including its policies and practices) with respect to such key elements as; health and safety, environmental protection, human rights, human resource management practices, corporate governance, community development and consumer protection, labor protection, supplier relations, business ethics and stakeholder rights.

Socially responsible banking is becoming a well established notion in the financial services industry (Scholtens, 2009). The Reserve Bank of India (RBI) has asked the banks to pay special attention towards combination of social and environmental concerns in their business operations. Stressing the need for Corporate Social Responsibility (CSR), RBI pointed out that these initiatives by the banks are vital for sustainable development. Issues such as global warming and climate change pose a great risk to the environment and can be quite damaging to the business. The Indian Banking industry has adopted the best management practices towards its social responsibilities and contribution to the society for reduction of Green House Gas emission by financing projects, which use renewable energy sources as main feedstock i.e. windmill, hydro power, biogases based power projects, solar etc. which are entitled for carbon credits.

RBI also assists to the layman in debt management and counseling. RBI also allows people to walk into Disha (the NGO front of RBI) offices where they are provided counsel on managing their debts. RBI is working towards empowering every individual, especially kids with information about mainstream banking activities and how they can preserve their wealth. RBI has launched two comics viz. Raju and the Money Tree and Money Kumar and the Monetary Policy towards spreading financial awareness among the kids in an interactive, fun and easy to digest way.

RBI has also made few films depicting the security features of various currency notes so that people can identify fake notes. These films are available on the RBI's website. Interactive games, which help kids learn about currency notes and money are also available on RBI's website.

To further incorporate some of its Corporate Social Responsibility (CSR) initiatives with its banking operations, the Bank has started outsourcing some non-core back office operations to certain small semi-urban locations. This creates jobs for the local educated youth in those towns with obvious gains for the families and also gives a boost to the local economy in those locations.

## CONCLUSION

The Information Technology Development has undoubtedly brought in- enormous benefits to banks, particularly in terms of productivity increases, cost reduction through labor saving and increased profitability. The Mergers and Acquisition activity in the banking sector is driven by global norms in banking which make it imperative for the Reserve Bank of India to drive consolidation in the Indian Banking Industry because the industry is globally competitive. Corporate governance also plays a significant role in the global environment. Sound Corporate Governance helps the banks in managing risks as well helps in value creation of shareholders and stakeholders through transparency and disclosure standards. Banking Sector realized that Corporate Social Responsibility (CSR) plays a significant role in the world of globalization and had taken initiatives in order to fight with issues such as global warming and climate changes.

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