Journal of Informatics Education and Research
ISSN: 1526-4726
Vol 4 Issue 3 (2024)

A STUDY ON ANALYZING CAUSES OF RESTRUCTURING OF PUBLIC SECTOR BANKS

Prachi J. Mane
Research Scholar,
Assistant Professor, Jai Hind College,
A Road, Churchgate.
maneprachi30@yahoo.in
Prof. Dr. Shiva Padme
Research Guide,
HOD (Accountancy),
Prahladrai Dalmia Lions College of Commerce & Economics,
Malad West.

Abstract:
Banking institutions must regularly reevaluate and realign to be competitive and relevant as economies change and change dramatically. Being key actors in economies worldwide, public sector banks go through restructuring to respond to new challenges, technology improvements, and changing consumer expectations. It is essential for the stability and effectiveness of the banking sector to comprehend the reasons behind reorganisation. The purpose of this research is to evaluate the causes of the restructuring of public sector banks. The technique used in this study is non-parametric Wilcoxon one sample signed rank test. The outcome of the study indicated that non-performing assets, Inadequate capital adequacy, Poor financial performance, Outdated technology infrastructure, Global financial crises, Non-compliance with regulatory norms, Ineffective management practices and Lack of customer satisfaction were seen to be high causes. In contrast, Privatization and Political interference were low causes of restructuring public sector banks.

Keywords: Restructuring, Merger, Acquisition And Wilcoxon One Sample Signed Rank Test

Introduction:

A nation's whole economy depends on banks to grow. Thus, for them to work properly, they must be reorganised through reform processes designed to avoid financial hardship. As part of a strategic goal that involves restructuring the banking sector or industry, the Indian government is repositioning and integrating the Indian banking sector into the global financial system. The Indian banking sector has undergone tremendous transformation over the years to improve it, including changes to the number of institutions, ownership structure, and depth and breadth of activity. In general, a bank is a business that has been given authorization to manage money by accepting deposits, making loans, and investing in securities by the state or federal government. The main goal of banks is to support economic growth by financing investments. Recent substantial developments in the banking sector are a result of regulations and the effects of globalisation. Both physically and tactically, these changes have impacted this industry. With the environment altering, this industry has chosen various methods to stay effective and advance worldwide. (Singh & Das 2018).

The phrase ‘restructuring’ is used to implement a major change within a company or system. The bank restructuring aims to enhance the combined bank's performance to regain solvency and financial performance. The goal of the reorganisation is to promote bank mergers, particularly between small banks, to build a sizable bank that can offer a wide range of financial services of a high level at competitive prices. It has been resorted to in order to gain from synergies of bank mergers about branch networks, technical improvement, and competence in credit evaluation. Capital restructuring entails efficiency, cost savings that boost profitability, and realign firm goals in light of altered labour capabilities and geographic coverage. According to Vanjerkhede (2019), It is "a comprehensive process through which a corporation may consolidate its business operations and strengthen its position for achieving corporate goals, maximising synergies, and continuing to be a competitive and prosperous entity. Each company strives to be world-class. To ensure long-term growth and commercial success, the corporate sector needs to undergo a comprehensive reorganisation due to the presence of the competitive environment and its obstacles. The phrases "merger" and "restructuring" are also synonymous when referring to a combination of two or more firms in which the merging businesses transfer their assets and liabilities to the acquiring business or bank. Finding the perfect merger partner could be challenging in a similar peer group. (Pramod 2020)

Bad lending practices have significantly impacted banks' financial performance, resulting in a high proportion of "non-performing assets (NPAs)". Some banks with large NPAs would have risked bankruptcy without the capital infusion. The second Narasimham Committee recommended, among other things, that three big institutions with a global reach, eight to ten national banks, and a substantial number of regional and local banks be established. According to universal agreement, India should have significant capital, presence, and exposure banks because these institutions are generally seen as having systemic importance. (Sen & Vardhan 2017) made the point that the government, as a significant stakeholder in "Public Sector Undertaking (PSU)" banks should carefully consider whether it is worthwhile to keep control and ownership of 70% of the banking industry and to pay the related fiscal expenses when these banks have difficulties. (Pramod 2020)
PSU banks are essential for directing money towards development programmes in a rising economy like India. Still, it could be wise for the government to consider lowering its ownership to a minority. Additionally, combining many PSU banks may make governance reforms easier and improve banking sector monitoring.

Review of Literature:

1. **Jeyalakshmi, P. R., & Rani, A. L. (2020).** This study's main objective was to evaluate the potential effects on customers and workers of the merger and consolidation of Indian public sector banks. A detailed literature review has been done to establish the trends in merging in both Indian and international banks in order to accomplish this. The study also focused on customers' perceptions of the merger and consolidation, their loyalty, and how they feel about it. Since customers frequently react negatively and emotionally to bank mergers and consolidations, managing their perceptions through regular, thoughtful communication is crucial. According to this paper, there is a positive significant moderate association between consumer perception and PSB mergers and consolidations, as well as a positive significant correlation between staff perspective and these same events. This study shows that the consolidation and merger of banks has both positively wedged (poor work culture, lack of commitment, compliance and risk consistency), and absolutely wedged (scale, efficiency, business gaps crammed, talent and team upgrade, technological deployment).

2. **Mogla, M., & Kakkar, S. (2020).** This study sought to ascertain how the operational synergies of the merged institutions would have been impacted by the merger of Indian public sector banks. The objective was to determine whether there was a chance that this combination might genuinely quicken India's economic expansion. It was determined that consolidation was a potent weapon that could be utilised to maintain liquidity, guarantee corporate transparency, and foster effective management. The public sector banks had improved their lending growth, decreased their non-performing assets, and enhanced their profitability as a result of the consolidation, according to media and government reports that had been made public at the time. Better capital adequacy ratios were also a result of the bigger size of the combined businesses. Although it was yet too early to

Journal of Informatics Education and Research
ISSN: 1526-4726
Vol 4 Issue 3 (2024)

assess the full effects of the merged firms' performance adjustments, they had made a promising start, and it was believed that the consolidation would be advantageous to both the customers of those businesses and the economy as a whole.

3. **Patel, R. (2018).** The article analysed the long-term profitability before and after merger positions for a subset of Indian banks from 2003–2004 to 2013–2014. A number of factors were used to analyse the financial performance. According to the report, the merger had a detrimental effect on the "return on equity, return on assets, net profit ratio, yield on advance, and yield on investment". However, "earnings per share, profit per employee, and business per employee" all exhibited an upward trend and increased following the merger. It was found that all banks' "assets, equity, investments, and advances" rose following the merger, but their respective yields declined due to underutilization. Instead, due to the best use of human resources, company and profit per employee rose.

4. **Pramod K. Sharma (2020).** The author examined the reorganisation of Indian Public Sector Banks, its origins, and the difficulties. The writer emphasised the need of a strong banking sector for a country's economic development. Researchers in this field had a difficult time identifying the various flaws that had existed at various times, including "capital adequacy, asset management, managerial competence, financial leverage, liquidity, legal reforms, banking frauds, and human (psychological) and technological issues" resulting from bank mergers, whether voluntary or forced. The researchers have tried to evaluate how mergers will affect shareholders' well-being through real-time stock prices. It was clear that combining two or three PS Banks might not be enough to address all of their problems. After the merger, issues with risk management, credit evaluations, dependency on government bailouts, insufficient board questioning of important decisions, and apathy of the anchor bank towards employees from other banks remained for a long time. In light of these findings, the author advised that the government and regulators should take the initiative to strengthen the monitoring and compliance functions within their various departments to deal with these persistent issues.

5. **Sengupta R. and Vardhan H. (2017)** The primary goal of this study was to analyse how the merger and consolidation of Indian public sector banks would impact consumers and employees. To do this, a thorough literature analysis has been conducted to determine the trends in merger in both Indian and worldwide banks. The study also focused on customers' perceptions of the merger and consolidation, their loyalty, and how they feel about it. Since customers frequently react negatively and emotionally to bank mergers and consolidations, managing their perceptions through regular, thoughtful communication is crucial. According to this study, there is a positive significant moderate association between consumer perception and PSB mergers and consolidations, as well as a positive significant correlation between staff perspective and these events. This study shows that the consolidation and merger of banks has both positively wedged (poor work culture, lack of commitment, compliance and risk consistency), and absolutely wedged (scale, efficiency, business gaps crammed, talent and team upgrade, technological deployment).

6. **Singh, S., & Das, S. (2018).** This study examined how merger and acquisition activity affected Indian banks' performance. It examined M&A patterns in the Indian banking industry and evaluated three top banks. The conclusions made clear how crucial strategies and policies are to

the post-M&A process. Qualitative effects like accounting reports and market appraisals greatly aided the improvement of bank performance. The recommendations included re-examining policies, improving logistical assistance, and implementing a thorough marketing strategy.

Journal of Informatics Education and Research
ISSN: 1526-4726
Vol 4 Issue 3 (2024)

Objective of the Study:
To evaluate the causes of the restructuring of public sector banks.

Hypothesis:
Ho: The causes of the restructuring of public sector banks are insignificant (Mean score $\leq$ 3)
H1: The causes of the restructuring of public sector banks are significant (Mean score > 3)

Research Methodology:
Descriptive research design is used for the current study. The sample size selected for the study is 50 top level public bank managers. The sampling technique used for the current study is non-probability purposive sampling. Both primary and secondary data collection sources have been used. Non - parametric one-sample Wilcoxon signed ranked test has been used using SPSS software.

Table No: 1 Demographic Profile

Variables	Category	Frequency
Gender	Male	**36**
	Female	**14**
Age Group	25 years to 35 years	**10**
	36 years to 45 years	**18**
	46 years to 55 years	**22**
Years of Experience	1 – 5 years	**6**
	5 - 10 years	**16**
	10 -15 years	**13**
	More than 15 years	**15**

Data were collected from 50 top-level managers of public sector banks, of which 36 were male and 14 female. 10 respondents belonged to the age group of 25 years to 35 years, 18 belonged to 36 years to 45 years, and 22 belonged to 46 years to 55 years. The experience levels of 5 respondents were 1 to 5 years, 16 respondents had 5 to 10 years, 13 respondents had 10 -15 years of experience, and 15 respondents had more than 15 years of experience.

Data Analysis and Interpretation:

Table No 2 - One sample Wilcoxon signed rank Test

Causes of Restructuring of Public Sector Banks	Null hypothesis	Observed Median	P – value	Results
Non-performing assets	The median of non-performing assets equals 3	**4**	**0.000**	Rejected (High Cause)
Inadequate capital adequacy	The median of inadequate capital adequacy	**4**	**0.000**	Rejected (High Cause)
Poor financial performance	The median of Poor financial performance equals 3	**4**	**0.000**	Rejected (High Cause)
Outdated technology infrastructure	The median of Outdated technology infrastructure equals 3	**4**	**0.013**	Rejected (High Cause)

Global financial crises	The median global financial crises equals 3	**4**	**0.000**	Rejected (High Cause)
Privatization	The median privatization equals 3	**3**	**0.121**	Accepted (Low Cause)
Non-compliance with regulatory norms	The median of non-compliance with regulatory norms equals 3	**4**	**0.000**	Rejected (High Cause)
Ineffective management practices	The median of ineffective management practices 3	**4**	**0.000**	Rejected (High Cause)
Lack of customer satisfaction	The median of lack of customer satisfaction equals 3	**4**	**0.000**	Rejected (High Cause)
Political interference	The median of political interference equals 3	**3**	**0.081**	Accepted (Low Cause)

Non - parametric one sample Wilcoxon signed ranked test is applied to evaluate the Cause of restructuring of public sector banks It is seen that p-value < 0.05 and for non-performing assets, Inadequate capital adequacy, Poor financial performance, Outdated technology infrastructure, Global financial crises, Non-compliance with regulatory norms, Ineffective management practices and Lack of customer satisfaction were seen to be high cause. In contrast, Privatization and Political interference was seen to be low cause as p-value is more than 0.05 of the restructuring of public sector banks.

Findings:

The study's outcome indicated the following to be high causes of restructuring of public sector banks.

- It was found that there were a lot of non-performing assets, poor loans, which hurt the banks' asset quality and profitability.
- Inadequate capital reserves were found, exposing institutions to possible risks and instability in the financial system.
- Their subpar financial performance hampered the inability of many banks to compete and expand in the market.
- Modernization was required due to the outdated IT infrastructure, hampered customer service and operational effectiveness.
- Public sector banks faced tough problems due to external economic shocks like the global financial crises.
- Banking laws must be followed with more rigour after instances of Non-compliance with regulatory standards were brought to light.
- Inefficient management techniques: Some banks had problems with bad decision-making and Inefficient management techniques, which resulted in less-than-ideal results.
- Lack of customer loyalty and trust; improvements must be centred on the consumer's needs.

Recommendation:

- Customer-centred enhancements are necessary to keep a customer's loyalty and trust.
- Strengthening capital buffers and enhancing capital adequacy ratios are necessary for improving financial stability.

- To reduce underperforming assets and raise asset quality, effective risk management strategies must be applied.
- To maximise operational performance and customer service, the IT infrastructure must be improved.
- Customer-centric tactics may help businesses increase customer loyalty and satisfaction.
- To keep accountability and transparency, it is essential to adhere to regulatory requirements and best practices.
- Enhancing corporate governance and implementing effective management practises are both necessary.
- Effective risk management procedures aid in preventing and preparing for global financial disasters.
- It is essential to carefully examine the benefits and drawbacks of privatisation in light of the general welfare.

Conclusion:

Reorganisation initiatives are influenced by several elements, according to a study on the reasons why they occur in public sector banks. One of the main causes of reorganisation was a high level of non-performing assets, insufficient capital adequacy, subpar financial performance, and antiquated technological infrastructure. In addition, key issues that need to be addressed include the global financial crisis, privatisation, non-compliance with regulatory standards, poor management techniques, and low consumer satisfaction. In contrast, the reorganisation of public sector banks was shown to be generally unaffected by political involvement. These findings underline the significance of tackling fundamental problems including financial stability, technological advancement, and customer-centricity, to support effective reorganisation initiatives.

The paper makes several important recommendations to improve the robustness and effectiveness of public sector banks. The overall financial health may be enhanced by bolstering capital reserves, implementing effective risk management procedures, and making technological changes. Enhancing public trust and accountability may be accomplished by prioritising customer satisfaction and regulatory compliance. The paper also recommends carefully weighing privatisation's possible advantages and hazards while keeping the larger public interest in mind. These suggestions can help public sector banks successfully traverse reorganisation challenges, providing a stable and client-centred banking environment. In the end, a well-executed reorganisation may put public sector banks in a position to prosper in a quickly shifting financial climate and provide more value to their stakeholders.

References:

1. Ahamed, M. M., & Mallick, S. (2017). Does regulatory forbearance matter for bank stability? Evidence from creditors' perspective. *Journal of Financial Stability*, *28*, 163-180.
2. Bhagwati, J., Khan, M. S., & Bogathi, R. R. (2017). *Can asset reconstruction companies (ARCs) be part solution to the Indian debt problem?* (No. 338). Working paper.
3. Hautamäki, A., & Oksanen, K. (2018). Digital platforms for restructuring the public sector. *Collaborative value co-creation in the platform economy*, 91-108.
4. Pramod K. Sharma (2020). Restructuring of Indian Public Secotr Banks: Genesis and the Challenges. International Journal of Research Culture Society. Volume. 4, Issue. 5.
5. Sengupta Rajeswari and Vardhan Harsh (2017) Non Performing assets in Indian banks : This time it is different, Economic and Political Weekly, March .
6. Singh, S., & Das, S. (2018). Impact of post-merger and acquisition activities on the financial performance of banks: A study of Indian private sector and public sector banks. *Revista Espacios Magazine*, *39*(26), 25.

7. Vanjerkhede Sunanda (2019) Corporate Restructuring In India: A Study with special reference to select Corporate Restructuring Initiatives in banking sector, Ph.D thesis submitted to Gulbarga University Kalburagi India.
8. Vibhute, N. S., Jewargi, D. C. B., & Haralayya, D. B. (2021). Study on Non-Performing Assets of Public Sector Banks. *Iconic Research And Engineering Journals*, *4*, 52-61.
9. Mogla, M., & Kakkar, S. (2020). Recent Amalgamation in Public Sector Banks: A Case Study. *ENVISION-International Journal of Commerce and Management*, *14*.
10. Jeyalakshmi, P. R., & Rani, A. L. (2020). Merger and Consolidation of Indian Public Sector Banks–An Analysis. *International Journal of Research in Engineering, Science and Management*, *3*.
11. Patel, R. (2018). Pre & post-merger financial performance: An Indian perspective. *Journal of Central Banking Theory and Practice*, *7*(3), 181-200.