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   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

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   ACKNOWLEDGMENTS

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   APPENDIX/ANNEXURE

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- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

ANALYSIS OF WAGE BURDEN AND EMPLOYEE PRODUCTIVITY OF STATE BANK OF INDIA AND ICICI BANK

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ABSTRACT

Banking sector has always been under the scrutiny of public eye by the virtue of the banking business itself and with the liberalization of the sector and advent of new private banks this scrutiny has not only become more intense but much more critical also. Banking is not a product but a service and hence the role of human resources become critical for the business, consequently the study of employee productivity, profitability and its impact on the total business becomes crucial. The paper compares and analyses the Average annual compensation received by SBI employees and ICICI Bank employees and contrasts it with Banks' Profit per Employee, for financial year (FY) 2008 to 2012, which is considered here as a proxy for employee productivity, through comparison of means statistical tests. An attempt is made to analyze the Banks' operating expenses and weight of wage burden through analytical tools for the financial year 2011 and 2012. The paper reveals that statistically there is no difference between the wages earned by employees of the two banks; however there is a vast contrast between their measures of productivity.

JEL CODE

G2, G21

KEYWORDS

Wage Burden, Operating Expenses, Bank Employee Productivity, State Bank of India, ICICI Bank.

INTRODUCTION

Across industries and economies, the human capital is acknowledged as a vital and most valuable resource in any organization. With the business environment ever changing and becoming all the more complex in this era of globalization, organizations draw and alleviate their competitive advantage through the human resources. The significance of human resources in creating the competitive advantage and enhancing the strategic footing of the organization increases manifold in the services sector.

A significant portion of the operating cost of service sector companies is the employee cost, arising out of employing commensurate work force for diverse operations in various geographies building a robust distribution network. The players in the Indian banking sector employ in thousands and their employee costs run in many crores. The aggregate on-roll employees of all scheduled commercial banks in India is more than 10Lacs which may run even higher if the employees in Regional Rural Banks and Co-operative banks are added .

The highly competitive environment of the Indian banking sector combined with rapidly changing market conditions and regulations has forced qualitative adaptation in the sector while posing an array of challenges for all the players, particularly the Public Sector Banks (PSBs). The rising competition concerns all the banks to improve their efficiency and performance to compete in a global setting.

The banking business although has evolved as an umbrella business for various allied financial services, nonetheless the major cost determinants for the leading players in the industry remains the same. Despite, the key differentiators in banking sector is primarily attributed to efficiency and customer base. Consequent to this, the analysis of a bank's profitability requires near scrutiny of employee productivity.

Historically, the PSBs have remained less productive mainly due to competitors' customer-centric policies and high service quality, resulting in a higher customer base and therefore increased business and profits. The HR function in PSB's has not been effectively managed and professionalized, is largely associated with routine administration work and lacks manpower planning. Consequently, there is serious skill shortage in various important areas of banking services and branch banking, which surely is reflected in profitability.

Various government constituted committees have discovered that 90% staff in PSBs is engaged in branch banking and the rest in administrative offices. Moreover, 60% of the time of branch staff is spent on non-customer facing roles and less than 10% of staff is employed for pushing sales. Thus even after the introduction of technology, routine clerical work continues and occupies most of the working hours. Consequently new service and sales roles are obstructed which impedes productivity enhancement and customer focus.

The current paper compares and analyses two of the country's largest banks; State Bank of India (SBI) and ICICI Bank on employee profitability and employee compensation. In FY'12 SBI's profit per employee stood at Rs. 5.31 Lacs while the average compensation per employee was Rs. 7.88 Lacs. Contrary to SBI, in FY'12, ICICI Bank's profit per employee stood at Rs. 11 Lacs while its average compensation per employee was Rs. 6.03 Lacs. This information divulges a relative disconnect between the profit generating capacity of the employees and average compensation paid to them in the banks.

Similarly in FY'11, SBI's profit per employee was Rs. 3.84 Lacs while the average compensation per employee was Rs. 6.82 Lacs; while ICICI Bank's profit per employee was Rs. 10 Lacs while its average compensation per employee was Rs. 4.94 Lacs. Evidently, in comparison to SBI this information divulge higher degree of employee efficiency in ICICI Bank. This colossal difference in profit per employee and average compensation per employee raises questions on the state of employee profitability in SBI.

More interestingly, comparisons of the top-line executive compensation of the two banks divulge compensation discrepancy in PSBs and Private Banks if SBI and ICICI Bank are taken as a proxy for the above mentioned two groups. ICICI Bank in FY'12 paid its top four executives compensation package not less than Rs 2 Crores each, while in extreme contrast the total compensation paid to top four executives of SBI did not exceed Rs 60 Lacs.

REVIEW OF LITERATURE

A number of studies were conducted to compare the performance of different Bank Groups working in India on the basis of various parameters like Business per employee, Profit per employee, Number of Accounts handled by Bank employees, burden of wages, operating costs etc. Sarkar & Das (1998) used 15 indicators on their study to compare performance of Bank groups based on the major criteria representing efficiency viz profitability, productivity and financial management.

Jhawar and Arya (2009) studied the movement in wage bill, its proportion with total operating cost and efficiency of employees with reference to their wages and profit earned by Public Sector Banks, Private Sector Banks and Foreign banks and compared them on above mentioned criteria for FY'04 and FY'08. The study concluded that despite the significant increase in total operating cost of all the bank groups, the efficiency of Private Sector Bank employees is better than Public Sector Banks employees on the basis of profit.

Kumar and Shreemalu (2008) in their study classified the banks on the basis of Modern Banks (New Private Banks and Foreign Banks) and Traditional Banks (Public Sector Banks and old Private Banks). While covering the period from 1997 to 2008, they have observed that the performance of Modern Banks was much superior to Traditional Banks on the basis of Profit per employee; Employee cost to total business; Employees cost to operating expenses; employee cost to total assets and employee cost to total business. Only in case of Employee cost to total business the performance of Traditional Banks was better than Modern Banks.

Uppal (2007) in his study relating to shift in Banking sector through Human Resources Management concluded that downsizing of employees is higher in Public Sector Banks, while in Private Sector the number of employees was increasing. Even with downsizing the Public Sector Banks have not succeeded in reducing labour cost. Besides Capital restructuring, Financial reengineering, information technology, the Human Resources Management is the crucial factor to manage the transformation in Banking Sector.

Sathye(2005) studied the impact of privatization on bank performance and efficiency for the period 1998-2000 and found that partially privatized banks have performed better than fully Public Sector Banks and they are catching up with the banks in the Private Sector. He has used the efficiency of banks on the basis of Data Envelopment Analysis. B. Janki (2002) analyzed the effect of technology on labour productivity; he concluded efficiency can be enhanced by using technology to develop new products and motivation of work force. While assessing the productivity in terms of Business per employee and per office Pitre(2003) reports that Foreign Banks are better than other banks but in terms of number of accounts per employee they are at the bottom of list. Ram Mohan (2002) studied that the profitability of Public Sector Banks improved but they have lagged behind in their ability to attract deposits and have been slow in technological up gradation and improving staffing and employment practices

Mittal and Dhade (2007) in their paper studied that it is difficult to quantify the output of Service Sector. The per branch deposit, advances and business ratios are much lower in case of Public Sector Banks, when compared with Private Sector and Foreign Banks. The profitability of Public Sector Banks is also lower but it is improving.

IMPORTANCE OF THE STUDY

In the midst of the world wide turmoil in the Financial and Banking Industry, the Indian Banking Sector displayed it resilience while continuing to mark impressive growth. The sector undoubtedly has a strategically important role in upholding and supporting the long term sustainable growth of the economy. During the financial year ended 2011, Banking and Insurance sector contributed 8.3% of the GDP. Sector's contribution to GDP during the period 2005 to 2011 has grown at a CAGR of 13.10% in real terms.

In every five years the management of Public Sector Banks, represented by IBA negotiates a wage revision with the United Forum of Bank Union (UFBU). The last agreement, called the 9th bipartite settlement was signed in 2009 however it was due in 2007. The next (i. e. 10th) bipartite settlement is due in November 2012. This wage revision and subsequent rise in the pay scales, over and above annual increment and periodical rise in Dearness Allowance, is an exercise marked by friction on various contentious issues while the customer is left in angst on several such occasions when the fallout is an industry wide strike. The periodic rise and uniform pay scales arguably disconnected with delivery and performance makes employees disinclined towards productivity and therefore is an answer for lower levels of employee productivity in PSBs.

The outlook for Banking sector suggests increased competition between the players on the pre-text of deregulated savings bank account interest rate, implementation of Basel III capital regulation effective from 2013 and due amendments in the Banking Regulation Act and Companies Act. The increased competition possibly could result in increased pressure on banks' profitability.

Considering the above it is necessary to know the burden of wage bill on operating expenses as well as the comparison of profit per employee vis-à-vis wage per employee, So that the productivity of the bank employees can be measured in true sense. State Bank of India is the largest Public Sector Bank while ICICI Bank is the largest Private Sector player. There is deep contrast between both the banks at all the levels be at quantitative or qualitative terms. The present paper is an effort to study the movement in wage bill, its proportion with total operating cost and efficiency of employees with reference to their wages and profit earned by them.

OBJECTIVES

1. To study and compare the wage burden bill of SBI and ICICI Bank on the total operating expenses in FY'12 and FY'11.
2. To analyze the possible reasons for any changes in the proportion of wages on total operating cost for the two banks.
3. To study the link between the profit per employee and average compensation per employee and thus analyzing the comparative productivity-compensation linkages in the two banks.

HYPOTHESIS

1. There has been sufficient increase in total operating cost of both the banks.
2. The percentage increase in wages has been higher than the percentage increase in operating expenses for ICICI Bank; contrary to SBI in FY'12 compared to previous financial year.
3. The efficiency of ICICI Bank employees is better than SBI employees on the basis of profit per employee.
4. The average compensation received by ICICI Bank employees is substantially lower than SBI employee.

RESEARCH METHODOLOGY

This is an analytical study in which secondary data of financial statements of ICICI Bank and SBI for the last two years (FY 2011 and FY 2012) has been used. Various tools like ratio analysis, percentage changes have been used. Statistical tools such as t-test are applied to test the statistical significance of some of the hypotheses.

RESULT & DISCUSSION

OPERATING COST AND EMPLOYEE COMPENSATION

In FY'12, the operating expenses of both the banks increased considerably in comparison to previous year. However, if we study the percentage of wages in operating expenses (Table B-01) it has increased for ICICI bank by 220 basis points while in contrast it has decreased for SBI by almost 100 basis points.

For ICICI Bank the operating expenses largely increased due to increase in employee expenses and administrative expenses. Employee expenses increased by 24.8% in FY'12 mainly due to an annual pay increase, performance bonus and a minor increase in the employee base (2.2% in FY'12). (Table B-02)

For SBI, although the total employee expenses increased substantially; the shrink in percentage of employee expense to operating expense can be attributed primarily to a decrease in staff strength by 3.3% in FY'12 (Table B-02)

In a comparative analysis, it can be concluded that ICICI Bank is operationally more efficient in terms of employee expenses with respect to SBI.

WAGES PER EMPLOYEE

The compensation to Bank employees has always been a matter of discussion among the general public and the policy makers. The bank employees are always viewed as good pay receivers. Since they are into the field of financial matters and deals with public money their compensation package is comparatively higher than other organized groups. Despite of this it has been observed that Bank employees often go on strike to increase their wages beside other demands. It is interesting to note the Banks calculate Business per employee and Profit per employee to assess the productivity of employees but Wages per employee is never calculated to justify their pay packages. An attempt has been made to calculate and analyze the wages per employee. Total wages is divided by number of employees. (Table A-01)

From (Table A-01) it is evident that for FY'12 the average compensation of ICICI Bank employees was 0.77 times that of SBI employees. The trend of SBI employees receiving higher average compensation is visible from FY'10 to FY'12.

The average compensation per employee in ICICI Bank increased substantially by 22% in FY'12 to Rs. 6.0 Lacs compared to Rs.4.9 Lacs in FY'11; consequently increasing the operating expenses. SBI, in a vast contrast to ICICI Bank paid average compensation of Rs 7.9 Lacs per employee in FY'12, up by 15.4 % from Rs. 6.8 Lacs in FY'11. (Table A-01)

SBI therefore in terms of average compensation per employee has been a better pay master historically; however it is a matter of current paper's argument whether it is justified through profitability.

PROFIT PER EMPLOYEE

Profit is the growth engine of the organizations. All the Scheduled Commercial Banks are established for the purpose of earning profit. Though in case of Banking Sector Profit is not the only motto of business, yet the banks have to earn the Profit in good quantum as they deal as intermediary between the people who have surplus money and the people who requires money for productive purposes. Profit per employee is calculated as Total Profit after interest and taxes divided by number of employees.

A comparative analysis reveals that ICICI Bank's profit per employee is almost twice that of SBI; and also the employees generate profits almost double that of their compensation (Table A-01). Furthermore, ICICI Bank's profit per employee has consistently been more than twice that of SBI's profit per employee.

SBI employees in comparison to ICICI bank employees receive average compensations substantially higher than their ICICI Bank counterparts and generate considerably lower profits to an extent of almost 70% of what they receive (Table A-01)

The Profit per employee of ICICI Bank has increased by 10% in FY'12 to Rs. 11 Lacs from Rs. 10 Lacs in FY'11. But when we observe the Profit per employee of SBI the deep contrast and a steep gap is evident. While the bank's Profit per employee in FY'12 increased by 38.2% to Rs. 5.3 Lacs compared to Rs. 3.8 Lacs in FY'11, it is almost half of the profit per employee generated by ICICI Bank.

However, the reason of this gap is certainly the high productivity of ICICI Bank employees. Apart from this concentrated business in Tier 1 cities, affluent customer base, outsourcing of many banking tasks and non participation in government Schematic Lending are some of the important causes of this gap.

TESTING OF HYPOTHESIS

1. First hypothesis was that there is sufficient increase in total operating cost of both the banks. The total operating cost of ICICI Bank increased by 18.6% in FY'12 (compared to FY'11); while the total operating cost of SBI increased by 13.3%. This hypothesis proved true.
2. Second hypothesis is that the percentage increase in wages has been higher than the percentage increase in operating expenses for ICICI Bank; contrary to SBI. This hypothesis is true as the percentage increase in wages for ICICI Bank in FY'12 is 24.8%, higher than the increase in total operating costs at 18.6% in FY'12; while for SBI the increase in wages was 11.6% in FY'12 lower than the increase in total operating costs at 13.3%.
3. Third hypothesis was that the efficiency of ICICI Bank employees is better than SBI employees on the basis of profit per employee. Table A-01 exhibits the profit per employee and average compensation for the two banks for the last five years. This hypothesis is proved true when a t-test for two-samples with unequal variance was administered over the profit per employee data for SBI and ICICI Bank (Table A-02). The hypothesis for equality of means was not accepted (alpha=.05) as the calculated t-statistic value lies beyond the t-critical value for two tailed test.
4. The fourth hypothesis that the average compensation received by ICICI Bank employees is substantially lower than SBI employee is proved to be false when the t-test for two-samples with unequal variance was administered over the average compensation data for SBI and ICICI Bank (Table A-03). The hypothesis for equality of means is accepted (alpha=.05) as the calculated t-statistic lies well within the limits of t-Critical for two-tailed test.

FINDINGS

Since liberalization of the Indian Economy in 1991 to the present day in the aftermath of sub-prime crises, the Indian Banking Sector evolved as a resilient and imperative sub-system of the Indian economy while still undergoing transformations each day. In the present day, banks face tremendous challenges on the fronts of customer service quality and satisfaction at a lower cost with high productivity. Wage burden constitute a significant portion of the operating costs of the banks and its analysis and linkages with factors such as employee productivity and efficiency is vital not only for the banks but for investors and customers as well.

1. The **operating cost** of both the banks increased but the operating cost of ICICI Bank increased at faster rate compared to SBI. The main reason being increase in employee expenses which in turn spiked mainly due to increase in employee base coupled with an overall increase in compensation.
2. The **proportion of wages** on operating cost has increased in case of ICICI Bank while it has decreased marginally in case of SBI. For ICICI Bank this is primarily due to increase in employee base and compensation, contrary to SBI whose employee base decreased and hence a marginal decrease in its proportion of wages on operating cost.
3. While comparing the **average compensation per employee** for ICICI Bank and SBI for a period of five years, it is revealed that statistically there is no significant difference between average compensation received by the employees of these two banks.
4. **Profit per employee** although has increased for both the banks in FY'12 compared to FY'11 yet the productivity of SBI is lower than ICICI Bank while we analyze profit per employee over a five year data. Major reasons for this disparity is the societal orientation of SBI, its nation-wide presence alike in urban and rural areas of the country, and a tall and wide management structure of branches and offices.

SUGGESTIONS

1 There should be direct connection between the performance and the rewards being received by Public Sector Bank Employees. Application of new wage agreements should be performance linked so that they may encourage addition to the productivity and create a win-win situation for both the bank and its employees. The resultant should be more aggressive marketing strategies targeted at big-ticket customers, larger business and cross-sectional array of services.

2 Banks may outsource some of their routine work and focus more on the front end services to increase their revenues. Focused training may be imparted in key areas to equip talent with all the required skills and knowledge to increase business in an efficient and effective manner.

3 Customers should be encouraged to use technology at their own end so that routine service burden of the branches may be reduced in turn increasing the productivity.

4 Banks must indeed improve their services so that the customer base may get attracted as is increased. Presently the customer base may be large, but to make them add value to the profits and business of the banks, the customers must be served in a more efficient way.

CONCLUSIONS

The two banks taken in the current discussion represents the group of Public Sector Banks and Private Sector Banks respectively, and clearly the paper concludes that wages are neither linked nor aligned with the profitability of the bank and thus with productivity of the employees. SBI employees receive about 30% higher compensation than ICICI Bank employees, while their profit generation capacity is only a half of the ICICI Bank employees.

TABLE A -01: PROFIT PER EMPLOYEE, AVERAGE COMPENSATION & THEIR RATIOS FOR 5 YEARS

Year	Profit Per Employee (in Rs. Lacs)			Average Compensation (in Rs. Lacs)		
	SBI	ICICI Bank	Ratio of ICICI Bank to SBI	SBI	ICICI Bank	Ratio of ICICI Bank to SBI
2007-08	3.73	10.00	2.68	4.34	5.11	1.18
2008-09	4.74	11.00	2.32	4.73	5.70	1.20
2009-10	4.46	9.00	2.02	6.37	5.46	0.86
2010-11	3.85	10.00	2.60	6.82	4.94	0.72
2011-12	5.31	11.00	2.07	7.88	6.03	0.77

(Source: Company Annual Reports, RBI, IBA)

TABLE A-02: t-TEST: TWO-SAMPLE ASSUMING UNEQUAL VARIANCES FOR PROFIT PER EMPLOYEE

	SBI	ICICI Bank
Mean	4.418	10.2
Variance	0.42427	0.7
Observations	5	5
Hypothesized Mean Difference	0	
Df	8	
t Stat	-12.19348304	
P(T<=t) one-tail	9.48835E-07	
t Critical one-tail	1.859548033	
P(T<=t) two-tail	1.89767E-06	
t Critical two-tail	2.306004133	

TABLE A-03: t-TEST: TWO-SAMPLE ASSUMING UNEQUAL VARIANCES FOR AVERAGE COMPENSATION

	SBI	ICICI Bank
Mean	6.03	5.45
Variance	2.17	0.19
Observations	5	5
Hypothesized Mean Difference	0	
Df	5	
t Stat	0.843666159	
P(T<=t) one-tail	0.218672713	
t Critical one-tail	2.015048372	
P(T<=t) two-tail	0.437345427	
t Critical two-tail	2.570581835	

TABLE (B) 01: OPERATING EXPENSES AND EMPLOYEE COMPENSATION (IN RS. Cr)

Banks	FY 2011			FY 2012		
	Op Exp.	Wage Bill	Wages as a % of Op. Exp	Op Exp.	Wage Bill	Wages as a % of Op. Exp
ICICI Bank	6,617.25	2,816.93	42.57%	7,850.44	3,515.28	44.78%
SBI	23,015.43	15,211.62	66.09%	26,068.99	16,974.04	65.11%

(Source: Company Annual Reports, RBI, IBA)

TABLE (B) 02: TOTAL NUMBER OF EMPLOYEES

Banks	FY 2011	FY 2012	% Increase
ICICI Bank	56,969	58,276	2.29%
SBI	2,22,933	2,15,481	-3.34%

(Source: Company Annual Reports, RBI, IBA)

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