Employees' Perception towards NPAs: A Comparative Study of Public Sector and Private Sector Banks

*Dr. Anindita Chakraborty**

Abstract

Non-performing assets (NPAs) have been a threat for the banking sector of the world. The Indian economy is also affected by it largely because it has been detrimental to the performance of the Indian banks. This study was an attempted to identify the critical factors, which were responsible for the NPAs in banks. This paper describes a self-assessment scale, and investigates its reliability and validity for measuring employees' perception towards Non-performing Assets i.e. NPAs. Empirical data were collected from 120 employees of public and private sector banks of Gwalior. The study revealed that there were six prominent factors such as proclivity, endorsement, inexpertise, inept, intrusion and deliberately which in the perception of employees are responsible towards NPAs. The study further compared the perception of both the sector employees towards NPAs and revealed that there was significant difference their opinions.

Key words: Non-performing Assets, Employees' perception

Introduction

Over a decade Non-performing Assets (NPA) has emerged as an alarming threat to the banking industry in our country. At present an asset is "non-performing" if interest or instalments of principal due stay unpaid for more than 90 days. Arpita (2010) stated that "a bank can have NPA when a borrower, who is under a liability to pay to secured creditors, makes any default in repayment of secured debt or any instalment thereof, the account of borrower is classified as non-performing assets (NPA). NPAs cannot be used for any productive purposes because they reflect the application of scarce capital and credit funds."

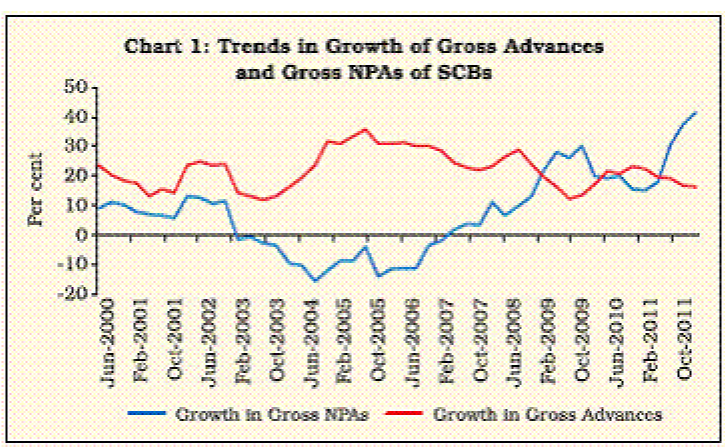
Reserve Bank of India (RBI) defines NPA as:*An asset, including a leased asset, becomes nonperforming when it ceases to generate income for the bank. A 'non-performing asset' (NPA) is defined as a credit facility in respect of which the interest and/or installment of principal has remained 'past due' for a specified period of time (90 days, March 31, 2004 onwards).*

NPA in loan portfolio affect operational efficiency which in turn affects profitability, liquidity and solvency position of banks (Michael et al., 2006). In addition to the influence on profitability, liquidity and competitive functioning, NPA also affect the psychology of bankers in respect of their disposition of funds towards credit delivery and credit expansion. NPA generate a vicious effect on banking survival and growth, and if not managed properly leads to banking failures (Batra, 2003). Thus it not only affects liquidity and profitability, in addition posturing threat on quality of asset and continued existence of the banks. The level of NPAs is one of the drivers of financial stability and growth of the banking sector. But it was seen that NPAs are sending distressing signals on the sustainability of the affected banks.

* Asst. Professor, Faculty of Management Studies, Banaras Hindu University, Varanasi, email id: aninditachakraborty19@gmail.com

In the year 1991, the Government of India along with Reserve Bank of India appointed a committee under the Chairmanship of Sh. M. Narsimham to examine and give recommendation for Income Recognition, Asset Classification and Provisioning of loan assets of Banks and Financial Institutions. The Committee examined the issues and recommended that a policy of Income Recognition should be objective and based on record of recovery rather than on subjective considerations. On the basis of the recommendations of the Narsimhan Committee, RBI had issued guidelines to all Scheduled Commercial Banks on Income Recognition, Assets Classification and Provisioning in April, 1992 which have been modified from time to time by the RBI on the basis of experience gained and suggestions received from various quarters. The Prudential Norms for Income Recognition, Asset Classification and Provisioning have come into effect from the accounting year 31.03.1993. Correspondingly, separate guidelines were issued by the RBI on Prudential Norms to All India Financial Institutions (March, 1994), Non-Banking Financial Companies (June, 1994) and to Regional Rural banks in March, 1996. They have adopted these guidelines for the purpose of Income Recognition and Assets Classification from the accounting year 1995-96.

The severity of the problem is however acutely suffered by Nationalized Banks with growing trend of NPAs as shown in below figure. Although the banking sector remained robust with high capital adequacy, even though rising NPA levels emerged as a concern. The NPAs, however, are pro-cyclical in nature and a rise in the same may be a reflection of overall slowdown in the economy. The Reserve Bank has undertaken several initiatives like faster grievances redressal mechanism, facilitating better banking experience for the disabled and intra-bank transfer of deposit facility to benefit the common man. The positive results of the chain of measures affected under banking reforms by the Government of India and RBI in terms of the Narasimhan Committee Reports have somehow neutralized the ill effects of this surging threat. But despite various correctional steps administered to solve and end this problem, concrete results are still waiting. Thus NPAs are not only the concern of lenders but for the major section of the beneficiaries of the financial system, should equally get concerned in a serious way on what they can do to deal with the severity of the NPA problem of banks. Continued growth in NPA threatens the repayment capacity of the banks and erodes the confidence reposed by them in the banks. In fact high level of NPAs has an adverse impact on the financial strength of the banks who in the present era of globalisation, are required to conform to stringent International Standards.



Source: Reserve Bank of India

Rationale of the study

Although there is no connection between employees and Non-performing Assets but as Babalola (2009) has suggested "banking is a service industry, is fundamentally hinged on trust, sustained by attitude and managed by complex financial management skills and psychology of human relations" therefore it becomes necessary to know the perception of the employees of banks towards NPAs. The Employee Perception survey is an employee attitude survey that provides an important view of the organization - through the eyes of the employees. Moreover for a development process employee of an organization is a catalytic agent, who for a healthy banking system and most for a bank's growth. So his attitude will help us to cater the problems that are faced by the employees during handling the NPAs. The study further looks into the difference in the opinions of the employees of both the sectors.

This research will help to find the critical factors, which are responsible for the loans to go bad in the Indian commercial banking system. This research will be useful for bank employees or the loan managers as the degree of motivation, skills and efforts of individual can be easily evaluated.

Review of Literature

Dhanuskodi (2007) studied that banks play a very important role in the economic development of every country. They have control over a large part of the supply of money which is in circulation. Banks are the main stimulus of the economic progress of a country. In general there are several challenges confronting of commercial banks. The main challenge confronting the commercial bank is the disbursement of funds in quality assets (loans and advances), the research has attempted to study the Non-Performing Assets (NPAs) in Commercial Banks. In a prior study Barr et al. (1994) suggested that failing banks had often showed a level of bad loans. It has been indicated that such ailing banks are in no way near the best practice frontier. In fact a negative impact of bad loans on the efficiencies of the banks has been affected. Increase in non-performing loans tends to be followed by decrease in cost efficiency, suggesting an increase in monitoring expenses of banks.

Reddy (2002) in his study focuses on comparative study of Non-Performing Assets in India in the Global context - similarities and dissimilarities, remedial measures and concluded the importance of a sound understanding of the macroeconomic variables and systemic issues pertaining to banks and the economy for solving the NPA problem along with the criticality of a strong legal framework and legislative framework. Foreign experiences must be utilized along with a clear understanding of the local conditions to create a tailor made solution which is transparent and fair to all stakeholders. Kaur and Pasricha (2004) concluded a research on management of NPAs in Public sector banks over a 8 years period ending 2002 and show that gross NPA has registered a constant increase from 1995-2002.

In a statement Jalan (2001) stated that there are some internal factors leading to NPAs, the onus rests with the banks themselves. This calls for organizational restructuring, improvement in managerial efficiency, skill up gradation for proper assessment of creditworthiness and a change in the attitude of the banks towards legal action which is traditionally viewed as a measure of the last resort. These are the elements on the agenda of the second phase of reforms. Muniappan (2002) reported that the high level of NPAs in banks and financial institutions has been a matter of grave concern to the public as bank credit is the catalyst to the economic growth of the country and any bottleneck in the smooth flow of credit, can cause for mounting NPAs, and can create adverse consequences in the economy. Kundu (n.d) stated that banking sector reforms in India has progressed promptly on aspects like interest rate deregulation, reduction in statutory reserve requirements, prudential norms for interest rates, asset classification, income recognition and provisioning. But it could not able to match up with the pace which was expected from it. Bhaumik and Piesse (2004) stated that the Indian banking sector witnessed more reforms than most other sectors of the Indian economy during the decades of 1990s. Interest rates have been deregulated, and entry into the banking sector has been liberalized. Similarly Reddy (2002) researched that financial sector reform in India and suggested that changes were required to tackle the NPA problem.

Vallabh (2007) explores an empirical approach to the analysis of Non-Performing Assets (NPAs) of public, private, and foreign sector banks in India. A model consisting of two types of factors, viz., macroeconomic factors and bank-specific parameters, is developed and the behavior of NPAs of the three categories of banks is observed. Chaudhuri (2005) stated that the "NPAs indicate asset quality of the balance sheet of a bank/institution and hence future income generating prospects. It also requires provisioning which has implications with respect to capital adequacy. Declining capital adequacy adversely affects shareholder value and restricts the ability of the bank/institution to access the capital market for additional equity to enhance capital adequacy. Thus, if a resolution strategy for recovery of dues from NPAs is not put in place quickly and efficiently, these assets would deteriorate in value over time and little value would be realized at the end, except may be its scrap value". Ramakumar (2007) focused on the NPAs which can be recovered through legal and regulatory recourses and is critical to the sustainability of banks. Thus, he suggested that to revise the various legislations and regulations that address the recovery of NPAs and evaluates their impact on recovery performance of banks.

Sanjeev (2007) attempted to identify the critical factors, which are responsible for the loans to go bad in the Indian commercial banking system. The study uses primary data collected from credit managers of banks operating in India. The study revealed that the external factors have a higher influence compared to the internal factors.

Objectives of the Study

- To evaluate the factors underlying employees' perception towards of NPAs in both private as well as in public sector banks.
- To compare the factors in both private and public sector banks.
- To open new vistas for further research.

Research Methodology

The study was exploratory in nature with total population of public and private sector bank employees. The total sample size was 120 individual respondents, which includes 60 public and 60 private sector bank employees. Non-probability convenience sampling technique was used to carry out the research and a self-design questionnaire was used for taking the responses of the employees. SPSS 16 and Microsoft Excel were used to analyze the data.

Tools Used for Data Analysis

- Item-to-Total Correlation was applied for checking the internal consistency. It is performed to check if any item in the set of tests is inconsistent with the averaged behaviour of the others, and thus can be discarded. The analysis is performed to purify the measure by eliminating 'irrelevant' items prior to determining the factors that represent the construct (Churchill, 1979).
- Cronbach alpha was applied for checking the reliability of the items. It is a measure of testing reliability of the questionnaire, that is, how closely related a set of items are as a group. A "high" value of alpha is often used as evidence that the items measure an underlying (or latent) construct.

- Factor analysis was applied for analyzing the underlying factors. Factor analysis is a statistical method used to describe variability among observed, correlated variables in terms of a potentially lower number of unobserved variables called factors.
- Z- Test was applied for making comparison between Private and Public sector bank employees.
- Z-test on factors was applied to see whether there is significant difference between the factors of NPAs in Private and Public banks.

Results and Discussions

- **Consistency**

To check the consistency, item-to-total correlation was calculated in respect of each item of the questionnaire. Correlation of every item with all items with all the items was measured and the value was compared with standard value of 0.177565 (self calculated). Where the computed value was found to be less than the standard value, that item was dropped and termed as inconsistent. The table 1 in the annexure showed that two items were dropped namely economic downturn and creditability.

- **Reliability test**

The reliability of questionnaire was calculated through Cronbach Alpha. The reliability value was found to be 0.800 as per table 2. Note that a reliability coefficient of .70 or higher is considered "acceptable" in most social science research situations (George and Mallery, 2003). This showed that the items of the questionnaire had quite high reliability.

Table 2: Reliability Statistics

Cronbach's Alpha	No. of Items
.800	18

- **Factor Analysis**

Factor Analysis was applied with the help of SPSS software on the raw scores of 120 items to find out the factors that contribute towards the study. The factors were calculated with the help of total variance explained. The six factors were calculated from the rotation sum of squared value loading which was the result of statistical software. These factors were explained below (see table 3):

1) **Proclivity:** This factor has emerged as the first important determinant of research with a total variance of 4.162. Major element consist this factor includes Duration (0.817), Type of loan (0.756), Loan amount (0.699), Business profile (0.447) and References (.113). During this research it was found that proclivity plays an important role for non-performing assets. While giving the loan the banker must give more emphasis on these basic informations otherwise it will cause a disaster.
2) **Endorsement:** This factor has emerged as the second most important determinant of research with a total variance of 1.771. Major items consist this factor are influence of Target-Oriented (0.698), Non-monitoring (0.637), Boom period (0.631) and Past track record (0.563). It was found that during this research endorsement plays a vital role. If the managers were target oriented they will give more loan without monitoring and seeing the past record of the customer.
3) **Inexpertise:** This factor has emerged as the third most important factor of research with total variance of 1.365. Major items consist these factors are influence of Penalties (0.724)

and Unskilled (0.589). During the research it was found that due to inexpertise activity non-performing assets has emerged.

4) **Inept:** This factor has emerged as the fourth most important factor of research with total variance of 1.306. Major items consist these factors are influence of Inefficiency (0.744), Lack of motivation (0.701) and processing fees (0.528). During this research it was found that non-performing assets occurred due to inept in the managers.
5) **Intrusion:** This factor has emerged as the fifth most important factor of research with total variance of 1.294. A major item consisting these factors are External environment (0738) and Collateral security (0.670). It was found that intrusion plays an important in the cause of non-performing assets. Burke (2006) investigated the relationship between bank interest rate margins and collateral for loans issued to new ventures. The results indicated that while provision of collateral initially reduces bank exposure to risk that beyond a point, the positive risk-wealth association gives rise to greater risk taking propensity among entrepreneurs and ultimately higher interest rates.
6) **Deliberately:** This factor has emerged as the last important factor of research with total variance of 1.100. Major items consist this factor are Willful default (0.732) and Incompetency (0.595). So it can be said that asset becomes non-performing due to deliberate activity of the managers because of their incompetency and lack of will to recover the loan from the customer.

- **Z -Test**

Z-test was applied to see whether there was significant difference between employees' perception towards NPAs in private and public banks. If value of Z is less than standard value, 1.96 at 5% level of significance, the null hypothesis is accepted.

Ho: There is no significant difference between employees' perception towards NPAs in private and public banks.

Table 4: Showing the Z-test results

Statistics	Private	Public
Mean	57.18333	65.91667
S.D.	7.766708	11.07339
Sample Size	60	60
S.E.	1.002678	
Z value	8.710011>1.96	

The null hypothesis was not accepted because the Z value (8.710011) (table 4) was above the tabulated value (1.96 at 5% level of significance). Therefore there was a significant difference between employees' perception towards NPAs in private and public sector banks.

- **Comparison of the Factors**

Further, the Z-test was applied to evaluate the significant difference among the factors, explored during factor analysis, private and public sector banks. If value of Z is less than standard value, 1.96 at 5% level of significance, the null hypothesis is accepted.

1. Proclivity

Ho$_1$: It states that there is no significant difference on the basis of proclivity of private and public banks.

Table 5.1: Z-test on proclivity

NPAs	Private	Public

Mean	15.83333	18.91667
S.D.	3.678461	7.166995
S.E.	1.010830	
Z value	2.96	

In the first factor Proclivity, the computed value of Z was 2.96 as per table 5.1, which was greater than the critical value 1.96, therefore there was a significant difference between the proclivity of private and public banks.

2. Endorsement

Ho$_2$: It states that there is no significant difference on the basis of Endorsement of private and public banks.

Table 5.2: Z-test on endorsement

NPAs	Private	Public
Mean	12.81667	15.48333
S.D.	2.896472	2.913974
S.E.	1.183197	
Z value	2.25	

In the second factor Endorsement, the computed value of Z was 2.25 as per table 5.2, which was greater than the critical value 1.96, therefore there was a significant difference between the Endorsement of private and public banks.

3. Inexpertise

Ho$_3$: It states that there is no significant difference on the basis of Inexpertise of private and public banks.

Table 5.3: Z-test on inexpertise

NPAs	Private	Public
Mean	6.483333	7.033333
S.D.	1.926547	1.991224
S.E.	0.357691	
Z value	1.5	

In the third factor Inexpertise, the computed value of Z was 1.5 as per table 5.3, which was less than the critical value 1.96; therefore there was no significant difference between the inexpertise of private and public banks.

4. Inept

Ho$_4$: It states that there is no significant difference on the basis of Inept of private and public banks.

Table 5.4: Z-test on inept

NPAs	Private	Public
Mean	9.316667	10.43333
S.D.	2.593941	2.757834
S.E.	0.488778	
Z value	2.28	

In the fourth factor Inept, the computed value of Z was 2.28 as per table 5.4, which was greater than the critical value 1.96; therefore there was a significant difference between the Inept of private and public banks.

5. Intrusion

Ho$_5$: It states that there is no significant difference on the basis of Intrusion of private and public banks.

Table 5.5: Z-test on intrusion

NPAs	**Private**	**Public**
Mean	6.466667	7.35
S.D.	1.431683	2.07344
S.E.	0.3253	
Z value	2.715	

In the fifth factor Intrusion, the computed value of Z was 2.715 as per table 5.5, which was greater than the critical value 1.96; therefore there was a significant difference between the Intrusion of private and public banks.

6. Deliberately

Ho$_6$: It states that there is no significant difference on the basis of deliberation of private and public banks.

Table 5.6: Z-test on inexpert

NPAs	**Private**	**Public**
Mean	6.266667	7.4
S.D.	1.614203	1.984687
S.E.	0.33027	
Z value	3.43	

In the sixth factor deliberately, the computed value of Z was 3.43 as per table 5.6, which was greater than the critical value 1.96; therefore there was a significant difference between the deliberation of private and public banks.

After conducting the Z-test on the factors it was found that there were significant differences in the opinions of public and private sector bankers and it was obvious from the amount of NPA both generate.

Conclusion

The present portfolio of banks is definitely a bane. It puts severe impact on the liquidity and profitability of the bank where it is out of proportion. It is needless to mention, that a lasting solution to the problem of NPAs can be achieved only with proper credit assessment and risk management mechanism. This paper is an attempt to find the employees perception towards the NPA and according to them what were the probable causes of having bad loans. It is necessary for the banking system to set prudential norms to minimize the problem of NPAs. The responsibility for containing the factors leading to NPAs rests with banks themselves. So it is necessary to know their view point regarding it.

The study reveals that there was overall significant difference as far as employees' perception towards NPAs of private and public banks is concerned. This study also showed that overall six factors were there in which out of five proclivity, endorsement, inept, intrusion, deliberately having significant difference between private and public sector banks perception. One factor i.e. inexpertise had no significant difference between private and public sector banks. Thus, the study of employees' perception towards NPAs showed that private bank employees as well as public bank employees both were equivalent in their perception towards NPAs but have different reasons of incurring it.

Therefore, it will be necessary for the banks to restructure their organizational setup, improvement in the managerial efficiency and skill upgradation for proper assessment of credit worthiness and then only the banks can avoid NPAs. The study further conclude that manager's motivation level, manpower, skills to appraise collateral, efforts to reduce costs, government and political intervention and budget constraints should also be given priority while giving loans to the customers. If the banks take care of these factors they can able to reduce NPAs.

Implications of the study

- With the help of data, the government can extend this research and make few changes in the credit policy of the bank.
- This study is a useful contribution towards the managers to evaluate the employee's perception towards NPAs, which will help them to increase their efficiency.

References

- Arpita (14 February, 2010), "Are Nonperforming Assets Gloomy from Indian Perspective", available http://www.lawyersclubindia.com/articles/Are-Non-Performing-Assets-Gloomy-from-Indian-Perspective/2588/, accessed April 2, 2011.
- Babalola, Sunday Samson (2009). "Perception of Financial Distress and Customers' Attitude toward Banking" available on ccsenet.org/journal/index.php/ijbm/article/download/3137/3491 accessed on September 08,2012
- Barr, R., L. Seiford, and Siems, T. (1994), "Forecasting Bank Failure: A Non-Parametric Approach", Recherches Economiques de Louvain, Vol. 60, pp. 411-429.
- Batra, S. (2003), "Developing the Asian Markets for Non-Performing Assets; Developments in India", 3rd Forum on Asian Insolvency Reform, Seoul, Korea
- Bhaumik, Sumon K. and Piesse, Jenifer (2004), "A Closer Look at Banks' Behaviour in Emerging Credit Markets: Evidence from the Indian Banking Industry", Aditya Birla India Centre Discussion Paper No. 2004-001.
- Chaudhuri, Datta Tamal (2005), "Resolution Strategies for Maximizing Value of Non-Performing Assets (NPAs)", available http://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=563934, accessed December 20, 2010.
- Churchill, G.A., (1979). "A paradigm for developing better measures of marketing constructs", Journal of Marketing Research, Vol. 16, No. 1, pp. 64–73.
- Dhanuskodi, R. (2007), "A Comparative Study on the Profitability Performance of Commercial Banks in Ethiopia", available http://www.ethiopianreview.com/2007/Final%20Paper-%20Dhansukodi.htm, accessed May 27, 2010.
- George, D., & Mallery, P. (2003). SPSS for Windows Step by Step: A Simple Guide and Reference. 11.0 Update (4th ed.). Boston: Allyn & Bacon.
- Kaur, Harpreet and Pasricha, J. S (2004), " Management of NPAs in PSBs ", the Indian Journal of Commerce, April-June, Vol. 57, No. 2, pp. 14-21
- Kundu, Subhashis (n.d). Non-performance of Non-Performing Assets", available http://www.legalservicesindia.com/articles/acc.htm, March 27, 2011.
- Muniappan, G.P (2002), "Indian Banking Paradigm Shift-A Regulatory point of View". Address at the Bank Economist Conference, Kolkata, January 12, 2002.
- Ramakumar, T.N. (2007), "Stressed Assets of Banks: Legal Initiatives and Impacts', The ICFAI Journal of Banking Law, Vol. 5, No. 4, pp. 10-22.

- Reddy, K. Prashanth (2002). A comparative study of Non Performing Assets in India in the Global context – Similarities, Dissimilarities, and Remedial Measures, available http://unpan1.un.org/intradoc/groups/public/documents/apcity/unpan013132.pdf, May 27, 2010.
- Michael, JN., Vasanthi, G., & Selvaraju, R. (2006). "Effect of Non-Performing Assets on Operational Efficiency of Central-Cooperative Banks", Indian Economic Panorama, Vol. 16, No. 3, pp. 33-39.
- Sanjeev, M. Gunjan (2007), "Bankers Perceptions on Causes of Bad Loans in Banks" Journal of Management Research, Vol. 7, No. 1, pp. 39.
- Vallabh, Gourav (2007), "Non-Performing Assets of Indian Public, Private and Foreign Sector Banks: An Empirical Assessment", The ICFAI Journal of Bank Management, Vol. 6, No. 3, pp. 7-28.
- http://www.Reserve Bank of India.com (accessed on 13 February, 2011).

Annexure

Table 1: Showing Item to Total Correlation

S.No.	Items	Correlation Value	Consistency/ Inconsistency	Dropped/ Accepted
1	Economic downturns	0.168857	Inconsistent	Dropped
2	External environment	0.352934	Consistent	Accepted
3	Willful default	0.402644	Consistent	Accepted
4	Collateral security	0.432964	Consistent	Accepted
5	Incompetency	0.528022	Consistent	Accepted
6	Inefficiency	0.451607	Consistent	Accepted
7	Unskilled	0.53992	Consistent	Accepted
8	Lack of motivation	0.430303	Consistent	Accepted
9	Penalties	0.386928	Consistent	Accepted
10	Target-oriented	0.473341	Consistent	Accepted
11	Non – monitoring	0.373634	Consistent	Accepted
12	Boom period	0.472002	Consistent	Accepted
13	Credibility	0.169639	Inconsistent	Dropped
14	Past track record	0.472591	Consistent	Accepted
15	Processing fees	0.509249	Consistent	Accepted
16	References	0.532153	Consistent	Accepted
17	Business profile	0.506626	Consistent	Accepted
18	Type of loan	0.508321	Consistent	Accepted
19	Duration	0.569853	Consistent	Accepted
20	Loan amount	0.606067	Consistent	Accepted

Table 3: Factor Analysis

Factor no.	Eigen Value		Variance of convergence	Loading
	Total Variance	% of Variance		
1) Proclivity	4.162	23.125	17 (Duration) 16 (Type of loan) 18 (Loan amount) 15 (Business profile) 14 (References)	.817 .756 .699 .447 .113
2) Endorsement	1.771	9.842	9 (Target-oriented) 10 (Non-monitoring) 11 (Boom period) 12 (Past track record)	.698 .637 .631 .563
3) Inexpertise	1.365	7.585	8 (Penalties) 6 (Unskilled)	.724 .589
4) Inept	1.306	7.253	5 (Inefficiency) 7 (Lack of motivation) 13 (Processing fees)	.744 .701 .528
5) Intrusion	1.294	7.190	1 (External environment) 3 (Collateral security)	.738 .670
6) Deliberately	1.100	6.109	2 (Willful default) 4 (Incompetency)	.732 .595