

IMPACT OF PRIVATIZATION OF BANKS ON EMPLOYEES AND CUSTOMERS: A RETROSPECTIVE REVIEW

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Abstract:

The Privatization of banks has been the most popular issue since the finance minister announced the decision of privatizing two public sector banks and one insurance company in the budget speech on 1st February 2021. Due to this, strikes were called by bank unions to protest against the decision of privatizing banks and giving the major portion of public sector banks' stakes to private owners. Therefore, demanding the withdrawal of Banking Laws (Amendment) Bill 2021.

This research paper aims to find out the impact of Privatization on the employees and customers and the major reasons behind the strikes against bank Privatization. As the success of any organization depends upon the satisfaction of its employees, it is essential to know what employees are expecting and what effect will this decision have on them. Customer being the Kingpin of the market, it is essential to know the impact of Privatization on customers as well.

The sample was taken from Moradabad City in Uttar Pradesh for the analysis. The data collected was primary and the sample size was 51 for public sector bank employees and 103 for customers. After the analysis, it was found that

Keywords: Banks, Privatization, Banking Laws (Amendment) Bill 2021, Employees Protest, Non-Performing Assets, Job Insecurity, Disinvestment, Customer Satisfaction.

Introduction

In the year 1991, India witnessed a wave of economic changes when the then Finance Minister Dr. Manmohan Singh announced the New Economic Policy 1991 (popularly known as LPG Policy) with the support of the PV Narasimha Rao Government. India faced double-digit inflation, a lack of access to external commercial borrowings, and a huge economic crisis before the LPG Policy. But it began to prosper very soon after the implementation of the policy. Under the policy, the government emphasized Liberalization, Privatization, and Globalization.

Also nowadays, the government is focusing on the Privatization of various PSUs to boost economic growth as many PSUs have become technologically outdated, having overcapitalization and high operating costs with low yields.

In the Budget Speech 2021, the Finance Minister of India Nirmala Sitharaman said *"We propose to take up the Privatization of two Public Sector Banks and one General Insurance company in the year 2021-22. This would require legislative amendments and I propose to introduce the amendments in this Session itself."*

The main purpose behind this declaration was a huge amount of non-performing assets, low productivity, fiscal burden, underutilization of resources, and managerial inadequacies.

But this decision of the government became a bone of contention between banking unions and the government and is leading to disagreement among bank employees. Many public sector bank unions called for strikes in the wake of this bank Privatization decision and they demanded that the government should withdraw the Banking Laws (Amendment) Bill, 2021 which would enable the government to reduce its share in public banks from 51 percent to 26 percent and disinvest around Rs. 1.75 lakh crore.

In the nationwide strikes called by the United Forum of Bank Unions (UFBU), employees also shouted slogans like “BANK BACHAO, DESH BACHAO”, “STRENGTHEN PUBLIC SECTOR BANKS, DO NOT PRIVATISE.”

These strikes had affected banking services like withdrawals, deposits, loan process, business transactions, account opening, cheque clearing, etc. thus leading to inconvenience among customers. However, the Privatization decision also has certain pros and cons from the perspective of customers as well. Because Privatization of banks will lead to better and quick customer services, better returns on deposits and savings, and faster withdrawals, the customers will not be able to easily invest their money in private banks as the customers have more trust in the public sector entities. Moreover, the topmost priority of private banks is to earn money and thus they do not focus much on financial inclusion and development.

Review of Literature

P Dikken et.al (2013): A study on Privatization was conducted in Mozambique, and it was found that it had a major effect on employment. As there were job cuts, lack of union power, low payless job security, and inequality which is much better in public sector undertakings. It was concluded that the public sector has a very vital role in providing decent work and equality.

NP Monteiro (2010): The impact of Privatization on change in wage growth is dependent upon uncertain interaction between firms and workers. The research conducted on the Portuguese banking industry on the effect of Privatization on wages found that there was a negative effect on wage growth rate in the short run and a positive effect in the long run for labor retained in privatized firms. Also, there was a negative wage effect on educated, experienced, and highly skilled workers.

L Huang, Y Yao (2010): The paper evaluated the effect of Privatization on employment in China. After using different types of tests, it was found that employment falls more slowly in privatized firms than in state-owned firms, and there was an improvement in the performance of privatized firms in terms of employment growth irrespective of change in techniques used to derive the conclusion.

Agba et al (2010): Privatization in Nigeria resulted in more employment creation and job security than expected. But this change was witnessed in the 1980s when there was rapid closure of SOEs and staff redundancy due to inefficiency and nonperformance which resulted in insecurity of jobs before Privatization in Nigeria. After Privatization, the enterprises which were shut down earlier were reopened and jobs were provided. Thus, it was concluded the Nigerian government should further implement Privatization for better economic growth, employment generation, job security, and efficiency of organizations.

Madzikanda et al (2008): In the research conducted to explore the attitude of Kuwait employees towards the impact of Privatization on the employment system. It was found that although Privatization had brought improvement in the delivery of services the employees' attitude towards Privatization was negative as they had the fear of losing their jobs. And thus, certain strategies were suggested for suitably dealing with these issues.

J S Earle et. al (2008): This research concluded that workers do not have fear of losing their jobs due to Privatization and even there was no significant negative impact on wages as well except 3-5% of workers of Hungary and Russia due to effects of scale, productivity and costs. In the case of foreign investors, there was a positive effect on both employment and wages which was due to large-scale expansion and productivity-improvement effect resulting in cost reduction.

WL Megginson (2005): The research assessed why governments chose to privatize their large state-owned banks. And the results show that state-owned banks are less efficient than private sector banks. However, it was also found that Privatization alone cannot transform the divested banks into more efficient organizations especially when privately privatized. The major outcome of large-scale bank Privatization is foreign ownership of banking sectors of many countries.

N Boubakri (2005): In the research, it was found that generally banks with low economic efficiency and solvency were chosen for Privatization. Post Privatization, profitability increased, but it depended on the owner, risk, capitalization, and efficiency. However, it was also found that newly privatized banks controlled by local industrial groups were more exposed to credit and interest rate risks.

Bakazi et al (2005): In his study, three arguments were presented as a rationale for the Privatization of state-owned enterprises. These were related to the high financing levels of public expenditure, more efficiency of private sectors, and excessive deficits and fiscal problems due to losses incurred by inefficient public sector undertakings. After the analysis, it was concluded that Privatization enhances economic efficiency but it also affects the access to essential services as Privatization leads to an increase in prices of goods and services resulting in less affordability and loss of employment opportunities due to the adoption of the cost-cutting mechanism by private owners.

Y Perevalov et al (1999): In the research, it was found that Privatization had impacted the performance of the organizations in different ways but the major improvement in the performance was in terms of operating profit margin and productivity of labor. Privatization has negatively affected the performance of enterprises. Thus it was suggested that either the state must keep the majority stake or it should reduce its stake below 5% to avoid a decline in performance due to the absence of a monitoring shareholder.

S Kikeri (1998): According to the findings of the research, the firms whose efficiency depends upon large-scale labor force adjustments, Privatization can proceed smoothly if governments take the necessary steps to involve labor unions and workers to reintegrate into the labor market and eliminate obstacles to private job creation.

R Rapacki (1995): In this paper, the effect of Privatization in Poland for five years was evaluated and it was found that despite social resistance and implementation delays Privatization has positively affected the efficiency and employment in Poland. The Privatization in Poland was influenced by several factors determining the pace, direction, and effectiveness of transforming the government assets into private.

WP Glade (1990): The path of Privatization witnessed many obstacles of political nature along with depressed business conditions in Mexico which leads to a reduction in employment level. But it was also concluded that if the scope of Privatization can be expanded, then it will lead to a positive employment effect and will help to reduce the migration of labor.

Objectives of the Study

1. To analyze the impact of Privatization on bank employees.
2. To study the impact of Privatization on the trust of customers and their satisfaction with banks.
3. To analyze the reason behind the resistance of employees against bank Privatization.

Hypothesis Formulation

- **NULL HYPOTHESIS (H0):** There is no significant impact in the performance of bank employees after Privatization.
- **ALTERNATE HYPOTHESIS (H1):** There is a significant impact in the performance of bank employees after Privatization.
- **NULL HYPOTHESIS (H0):** There is no significant difference in customer satisfaction after the Privatization of banks.
- **ALTERNATE HYPOTHESIS (H1):** There is a significant change in customer satisfaction after the Privatization of banks.

Scope of the Study

The banking sector plays a very crucial role in determining the heights that any country could achieve. In India, also banking sector has helped the country in holding the position of the leading country in the world. But the banking sector which is one of the pillars of Economic growth got disturbed resulting in the dissonance between bank employees and the government. This conflict brought our attention to the issue to think why the employees were dissatisfied with the decision of the government to privatize public sector banks. Moreover, this also draws our attention to what impact will Privatization have on employees and customers.

Research Methodology

Data Collection and Sample

Data: The data collected for the study is primary, and was collected through google forms. The research is exploratory and descriptive.

Sample: For the analysis, questionnaires were shared with a sample of 51 bank employees and 103 bank customers of Moradabad city was taken. However, the forms were shared with 70 bank employees and 120 customers.

Sampling Technique: For the collection of data snowball sampling technique was used.

Variables

- **Dependent Variables:** Job security, Remunerations, and Customer Satisfaction.
- **Independent Variables:** Bank Privatization
- **Countervailing Variables:** Banking Laws (Amendment) Bill 2021.

Statistical Techniques:

The present study examines the effect of the Privatization of banks on bank employees and customers. The analysis was done using SPSS and Microsoft Office and the tests used for analysis were

Hypothesis Testing

Testing of Hypothesis 1: Table 1: || Hypothesis 1 || Independent Sample t test statistics

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Increase productivity and managerial efficiency	Equal variances assumed	0.026	0.873	-0.151	49	0.881	-0.033	0.221	-0.478	0.411
	Equal variances not assumed			-0.141	6.186	0.892	-0.033	0.236	-0.606	0.54
Reduce the number of Non Performing Assets	Equal variances assumed	23.857	0	-1.295	49	0.202	-0.278	0.215	-0.709	0.153
	Equal variances not assumed			-1.52	7.191	0.171	-0.278	0.183	-0.708	0.152

*Source: SPSS Output

If we considered the factors affecting the performance level of employees with regards to Privatization, then following statistical value are arrived:

1. In the case of independent sample t test regarding the increment in productivity (Leven's test for Homogeneity of variances), the F value is 0.026 and p value (significance value) is 0.873 and the value of t test statistic is equal to -0.141 with significance value (two tailed) 0.892.

2. In the case of independent sample t test regarding the reduction in NPA (Leven's test for Homogeneity of variances), the F value is 23.857 and p value (significance value) is 0 and the value of t test statistic is equal to -1.295 with significance value (two tailed) 0.202. The significance value of the test statistic makes the null hypothesis true. This means that access to performance level of employee and Privatization is not significantly different.

Table: 2|| Hypothesis 2 || ANOVA test statistics

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
Better Services and management	Between Groups	1.367	4	.342	1.380	.246
	Within Groups	24.264	98	.248		
	Total	25.631	102			
Better returns on savings	Between Groups	.266	4	.066	.519	.722
	Within Groups	12.550	98	.128		
	Total	12.816	102			
More focus towards customer satisfaction	Between Groups	1.074	4	.269	1.568	.189
	Within Groups	16.790	98	.171		
	Total	17.864	102			

*Source: SPSS Output

Between customer satisfaction and better services and management, the value of the test in ANOVA table is equal to 1.380 and p value is 0.246.

Between customer satisfaction and better returns on savings, the value of the test in ANOVA table is equal to 0.519 and p value is 0.722.

Between customer satisfaction and more focus towards it, the value of the test in ANOVA table is equal to 1.568 and p value is 0.189.

Since the value of significance level is more than 0.05, Null Hypothesis needs to be accepted.

Results and Findings

Table 3: Hypotheses Summary

Null Hypothesis	Alternate Hypothesis
Hypothesis 1: There is no significant impact on the performance of bank employees after Privatization. ACCEPTED	Hypothesis 1: There is a significant impact on the performance of bank employees after Privatization. REJECTED
Hypothesis 2: There is no significant difference in customer satisfaction after the Privatization of banks. ACCEPTED	Hypothesis 2: There is a significant change in customer satisfaction after the Privatization of banks. REJECTED

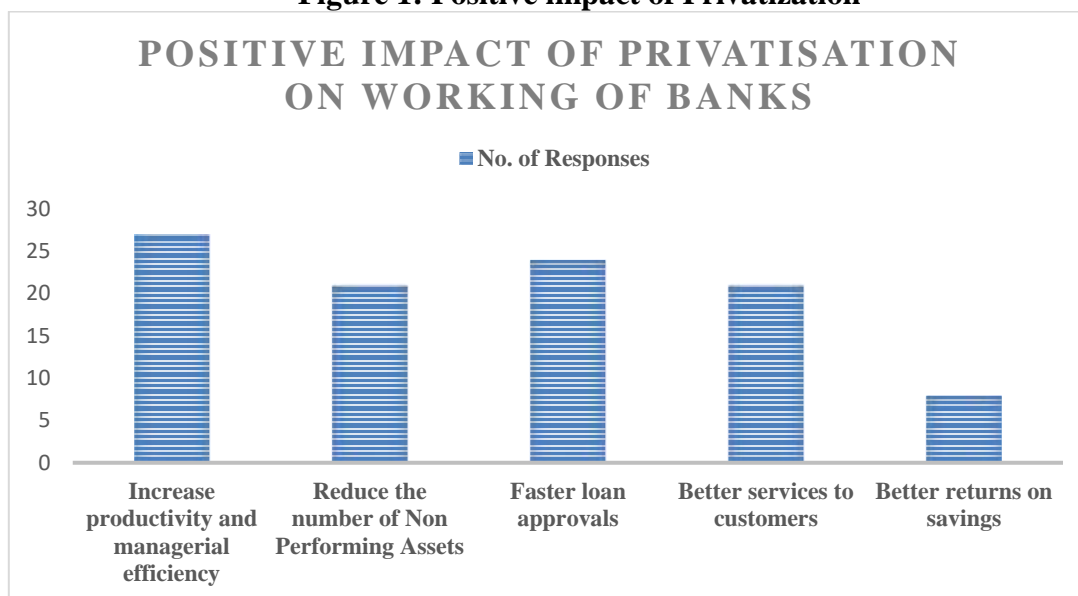
Results and Discussion

Impact on Bank Employees

- **Positive impact on Working of Banks:** 6 out of 51 bank employees believe that bank Privatization will not affect the working of banks adversely. Employees were of the view that Privatization will have a certain positive impact on the working of banks. 27 responses were collected in favor of Increase productivity and managerial efficiency, 21 for Reducing the number

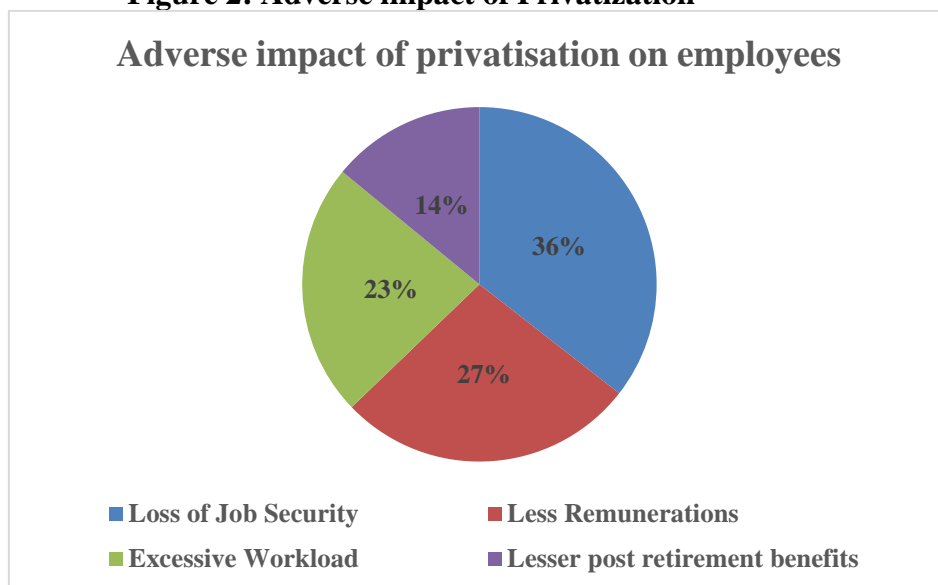
of Non-Performing Assets, **24** for Faster loan approvals, **21** for Better services to customers, and **8** for Better returns on savings.

Figure 1: Positive impact of Privatization



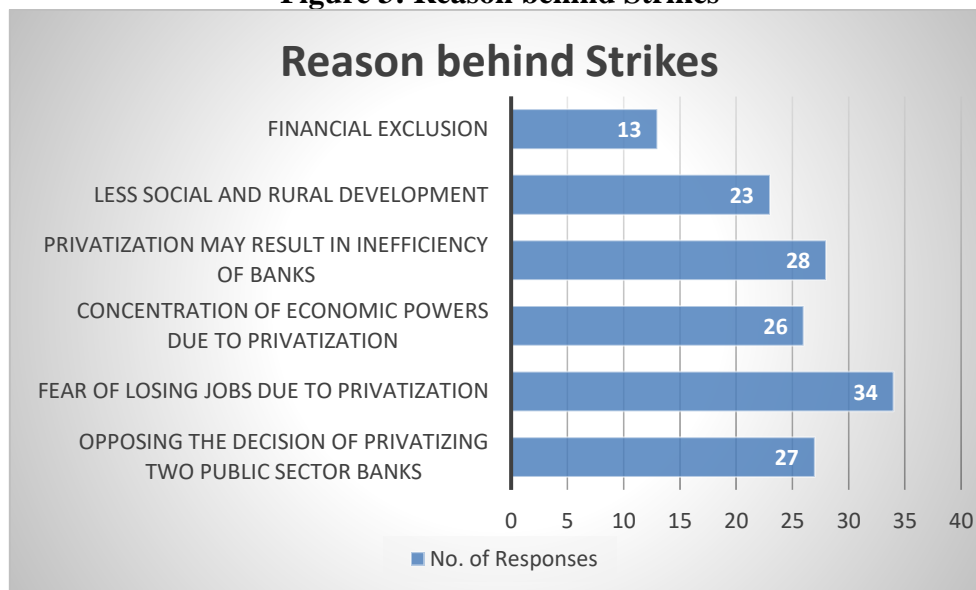
- **Adverse impact on Bank Employees:** All the bank employees believe that the Privatization of banks will adversely affect the employees and thus **43** responses were collected for loss of job security, **33** for lesser remunerations, **28** for excessive workload, and **17** for lesser post-retirement benefits as represented in Fig 2.

Figure 2: Adverse impact of Privatization



- **Reason behind Strikes and expectations from the government:** For finding out the major reasons behind strikes, responses were collected on factors like Opposing the decision of privatizing two public sector banks, Fear of losing jobs due to Privatization, Concentration of economic powers due to Privatization, and Privatization may result in inefficiency of banks, Less Social and Rural Development, Financial Exclusion. And, **27** responses were collected Opposing the decision of privatizing two public sector banks, **34** for fear of losing jobs due to Privatization, **26** for Concentration of economic powers due to Privatization, **28** for Privatization may result in inefficiency of banks, **23** for Less Social and Rural Development, and **13** for Financial Exclusion.

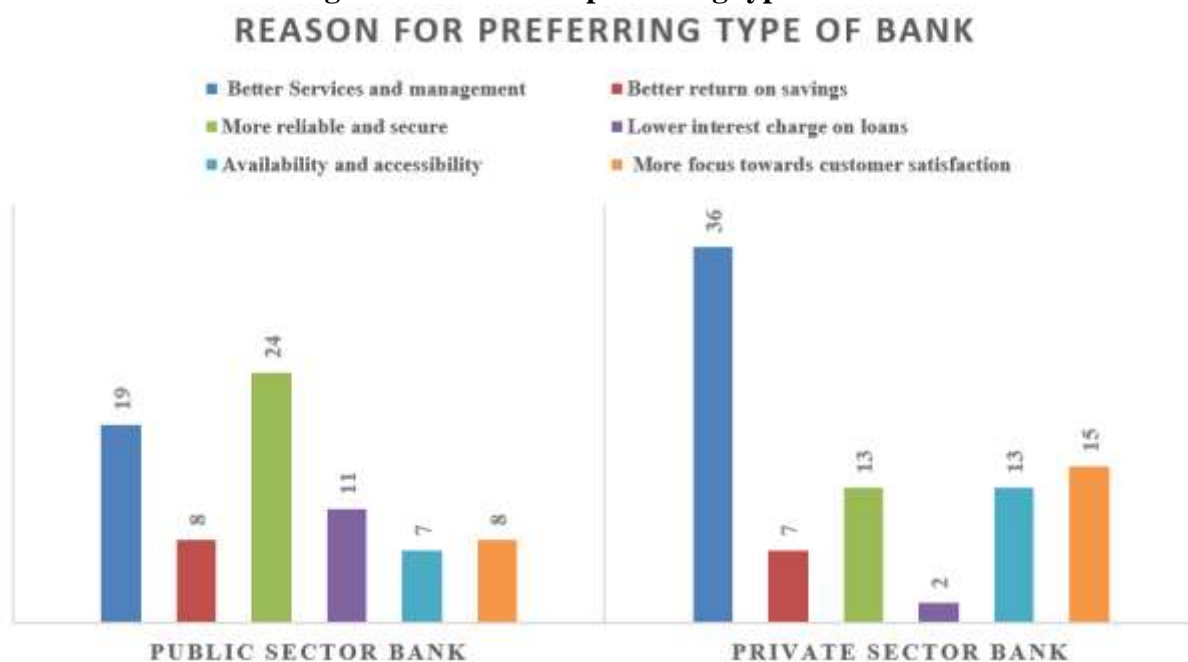
Figure 3: Reason behind Strikes



Impact on Customers:

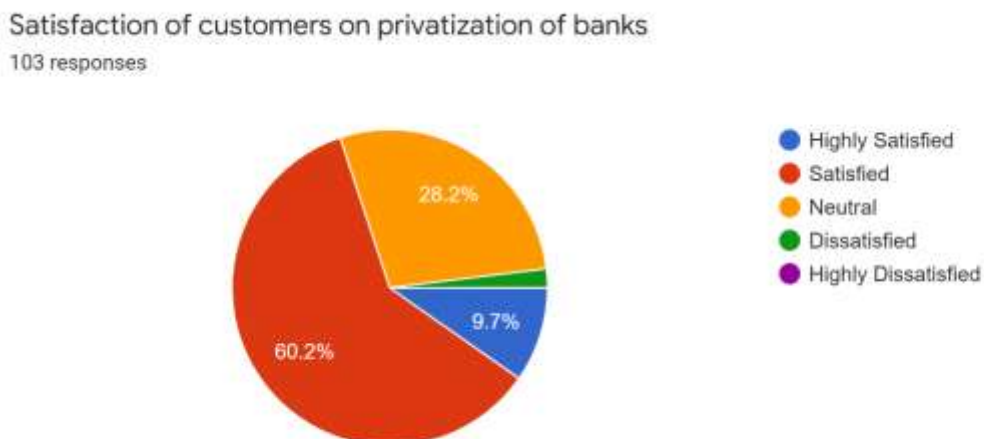
- **Most preferred type of bank:** While collecting the data for the most preferred type of bank 54 customers chose public sector banks and 49 customers chose private sector banks. For selecting the reason for choosing the type of bank the factors considered were Better services and management, Better returns on savings, More reliability and security, Lower interest charges on loans, Availability and accessibility, and More focus on customer satisfaction.

Figure 4: Reason for preferring type of bank



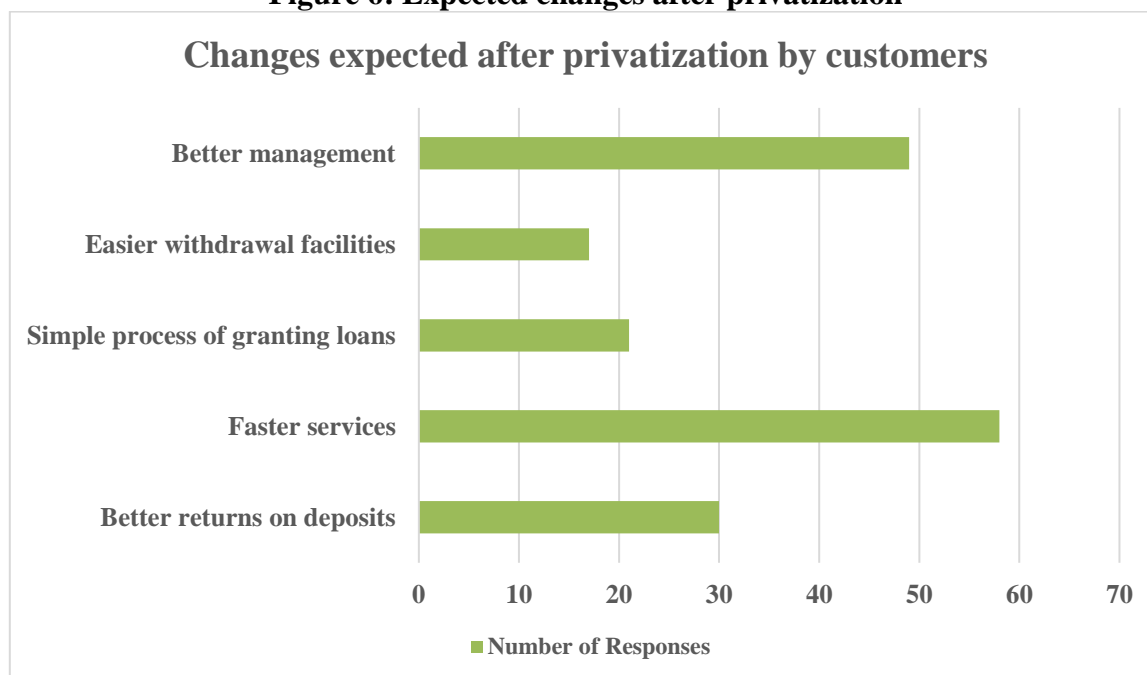
- **Satisfaction of customers:** The customers were asked to rate the private banks based on customer satisfaction, and it was found that 10 respondents were highly satisfied, 62 were satisfied, 29 were neutral, 2 were dissatisfied and no respondent was highly dissatisfied.

Figure 5: Customer satisfaction on privatization of banks



- **Opinion on Privatization:** The respondents were asked whether Privatization will improve the performance of banks and it was found that **76** respondents chose Yes, and **27** respondents chose No. Also, they were of the view that after Privatization they will get certain facilities that were not provided earlier, **30** responses were collected for a better return on deposits, **58** for faster services, **21** for the simpler process of granting loans, **17** for easier withdrawal facilities and **49** for better management.

Figure 6: Expected changes after privatization



Conclusion:

The banking sector is the backbone of the Indian Financial system and has been the biggest reason behind the development of the country as after its independence the country was at its worst phase. For the continuous prospering of any nation, certain changes are required from time to time. In 1969, the nationalization of various banks took place but now the scenario has changed and emphasizes the need to privatize banks.

The main findings of the study may be summarized as follows:

1. There is a positive impact on the working of banking employees;
2. The satisfaction level of employees got declined;
3. The most preferred types of banks are the private one;

4. There is an improvement in customer satisfaction; and
5. The main reason of strikes are the disagreement with Privatization.

Thus, it can be concluded that after Privatization, banking employees does not show the difference in the satisfaction level while the customers show that the satisfaction level does not change after Privatization.

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