

## **Abstract**

### **Structure, Conduct and Performance Relationships in Indian Banking Sector**

Since initiation of economic reforms in 1991, Indian banking sector has experienced a number of changes relating to policy and regulation. While the liberal policies are expected to bring in greater market competition and thereby to enhance efficiency of the banks, their strategic response to the changing business conditions are likely to limit competition inducing effects of the policy changes. In this perspective, the present study is an attempt to examine the structure-conduct-performance relationships in Indian banking sector. The study is based on secondary data collected from the Prowess database of the CMIE, Mumbai. It is observed that structure of the market, business strategies of the banks, and their financial performance have undergone significant changes during the post-reform period. Applying panel data regression techniques for a dataset of 59 banks over the period from 1995-96 to 2007-08, it is found that there are strong inter-linkages amongst structural aspects of the market, business strategies of the banks and their financial performance, and the relationships are not unidirectional in nature. This not only discards the traditional unidirectional and static structure-conduct-performance relationship, but also establishes that the relationships amongst market structure, conduct and financial performance in Indian banking sector are multidirectional and dynamic. The study also finds that diversification of services does not benefit a bank in stabilizing its financial performance. Instead, financial performance becomes more volatile with greater extent of operational diversification. Besides, contrary to the general proposition, it is found that larger asset base or greater efforts towards advertising and promotion of services fails to stabilize financial performance of a bank. The findings of the present study, therefore, suggest that the policies relating to competition in Indian banking sector requires serious scrutiny. Further, designing appropriate framework for guiding the extent and the areas of diversification of banking services is also very important. This is so because over-diversification of operations or diversification into the areas of noncore competencies may not only affect stability of financial performance adversely, but may also create conflicts across the regulators in defining their jurisdiction.

**Keywords:** Structure, conduct, performance, policy, regulation, banking sector, India