

Abstract

Research on competition in the banking sector is of high relevance almost always, given the criticality of banking sector in an economy, more so in the case of a developing economy like India. The economy has seen a structural break in the form of economic reforms, having wide ranging implications: economic, social and political. Capturing the entire gamut of competition and its impact on firms' performance, industry structure, organizational structure and relations with the external stake holders is an arduous and a complex task, best served by moderate ambitions.

In this dissertation, I have attempted a study of the Indian banking industry since mid 1990s, when our economy opened up, literally, to a new reality. External changes in the form of prudential norms, tightening up of regulatory requirements and encouraging market forces to determine the existential status of banks meant a sea change in the way banking was conducted. To capture the various aspects of these changes and their impacts, I have structured this dissertation in the form of three essays.

The first essay deals with the impact of change in industry structure on bank performance, and also the response of banks to this change. The impact of other variables like ownership, listing etc is discussed. The study finds that over time banks have become more efficient and collusion among them is almost rooted out. The organizational changes in terms of vertical de integration and diversification were in response to external change, to increase performance.

The second essay deals with economic aspect of structural change. The shift in market shares of firms and the drivers of this change in concentration has been studied. The results show that smaller firms grew faster than larger firms, thanks to deregulation that removed the obstacles for growth. Also, this study shows evidence for (small) size growth relationship, thereby rejecting Gibrat's law in this context.

The third essay deals with the intersection of business and politics. Interaction between economic and political players is now being discussed in recent research. I find evidence of MNC banks being showing election related behavior of lending and spending, that suggests political management by MNC banks, in contrast to some previous studies that have shown political management of PSB banks in India.