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# A Comparative Study of Management Practices of Public and Private Banks in India

Dr. Gururaj S Barki

*Assistant Professor, PG Department of Studies in Commerce, KLEs G H College, Haveri-Karnataka, India*

**Abstract--** The Indian banking industry is pivotal to the economic growth of the country and the all-important banking industry has both public and private sector banking with diverse ownership systems and management philosophies. This paper will make comparison of the management practices of State Bank of India (SBI) which is a major public sector bank as compared to HDFC Bank which is a major private sector bank. The research assesses the efficiency of operations, profitability, and quality of assets based on secondary data of annual reports and publications of the RBI regarding the financial year 202223. Three quantifiable goals are examined, which include cost efficiency, employee productivity and quality performance of assets. It is compared using numerical measures, including Cost-to-Income Ratio, Business per Employee, Profit per Employee, and Gross Non-Performing Assets (GNPA) Ratio. The analysis of the results reveals that HDFC Bank is characterized by a higher level of operational efficiency and reduced NPAs, whereas SBI boasts of extensive outreach and higher profitability because of restructuring and digital transformation efforts. The contrasted analysis identifies the structural variation in the governance, malleability and risk management strategies. The paper concludes that whereas, private banks are the best in terms of efficiency and quality of their assets, the banks in the public sector lead in terms of financial inclusion and presence across the country.

**Keywords--** India, Banks, Management, Public, Efficiency, Governance.

## I. INTRODUCTION

The Indian banking sector has experienced a tremendous change over the last thirty years especially following the liberalisation and reformation of the financial sector. The role of the banks of the public sector (PSBs) that once dominated in India has been critical towards financial inclusion, priority sector lending, and socio-economic development. But with the introduction of the private sector banks, competition, innovation, and efficiency to the system have been achieved. The largest public sector bank in India founded in 1955 is the State Bank of India (SBI) that has a large number of branches and government ownership. It is strategic in enacting the government policies and financial inclusion programs.

Conversely, HDFC bank, which was incorporated in 1994, is the model of a new generation of the private sector banking that can be characterised as technology-oriented operations, professional management, and robust risk management models. The practices of the management in banks include the structure of decision-making, efficiency of the operations, productivity of the employees, cost management and quality management of the assets. The banks in the public sector usually have regulatory and social responsibilities, whereas those in the private sector are concerned about profitability, share price and efficiency in operations. New reforms in the recent past, including recapitalization, mergers of state-owned banks, the growth of digital banking, and NPA resolution have left a major impact on the performance of management. Consolidation and adoption of digital technologies have enhanced the profitability of SBI. In the meantime, HDFC Bank has had very good financial ratios and asset quality indicators. The given comparative study relies wholly on the secondary data of annual reports and RBI statistics of the FY 202223. Three management core dimensions are measured in the study:

- Cost Efficiency
- Employee Productivity
- Asset Quality

Through a comparison of the main financial ratios and the productivity indicators, the study tries to get insight on whether ownership structure plays a major role on management practices and financial performance.

## II. REVIEW OF LITERATURE

### 1. Narasimham Committee (1991 & 1998)

The Narasimham Committee Reports provided a ground of reforming the banking sector in India. The committee focused on capital adequacy standards, decreased government intervention, better quality of asset classification and increased operational independence of the banks in the public sector. It suggested the enhancement of prudential standards and competitiveness to the level of the efficiency of the private sector.



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These reforms had great impact on the management practices of the banks of the public sector propelling them to profitability orientation and risk-based supervision. The proposals provided also had an indirect effect of promoting the involvement of the private sector and the standard of corporate governance throughout Indian banking.

*2. Berger and Humphrey (1997)*

According to an international survey of efficiency of financial institutions, Berger and Humphrey discovered that ownership is an important factor in defining the performance of the operations. Their research found that the privately-owned banks tend to be more cost-efficient and profitable in performance than the publicly owned banks. The study brought out the point that competition, management incentives and autonomy are the factors that lead to high efficiency performances in privately owned banks. Their results give some theoretical grounds on the comparison of the management practices of the public and the private sector banking.

*3. Das and Ghosh (2006)*

The effects that financial deregulation has on Indian banks were analysed by Das and Ghosh, who discovered that there is a large variation in the level of efficiency of the public and the private sector banks. The researchers have found that private banks work better in terms of cost management and profitability measures than the banks of the public sector. Nevertheless, state sector banks have expanded branch networks and social banking obligations. The authors highlighted that governance reforms, performance based incentives, and accountability of managers are significant and cause of concern in the efficiency of banking and its sustainability in the long run within the competitive banking environment in India.

*4. Kumar and Gulati (2010)*

Kumar and Gulati implemented Data Envelopment Analysis (DEA) to the Indian banks to gauge the technical efficiency. They found that the technical efficiency of the banks in the new generation in the private sector is higher than the one in the public sector. The research gave greater efficiency to technological innovation, improved practices of risk management, and customer focused service models in the private banks. The public sector banks were also discovered enhancing slowly thanks to modernization and reforms. The study supports the necessity of ongoing performance assessment and embracing of modern management procedures.

*5. Sarkar et al. (2018)*

Sarkar and others studied the performance of the Indian state banks after recapitalisation efforts. The research revealed that there had been enhancement in profitability as well as capital adequacy ratio, but still had difficulties in management of assets. As the government support enhances financial stability, operational efficiency continued to remain lower than the investment in the private sector. The study has pointed out that reforms of structure, digitalization, and professional management practices are required to increase competitiveness. The results highlight the changing management practices in the post reform era in the banks of the public sector.

*6. RBI Report on Trend and Progress of Banking in India (202223).*

Reserve bank of India annual report of banking trends reveals that the banks in the private sector always have less Gross Non-Performing Asset (GNPA) ratio and cost to income ratios than the banks in the public sector. Nevertheless, financial inclusion performance and rural penetration is higher in the public sector banks. The report shows that there is an increase in the quality of assets in the banking industry as a result of tightening the regulations and recovery strategies. It offers the empirical evidence of comparative assessment of the management effectiveness in SBI and HDFC Bank.

*7. RBI Financial Stability Report (2023).*

According to the RBI Financial Stability Report (2023), GNPA ratios in the banks of India declined as a result of the enhanced credit appraisal systems and the recovery mechanisms. It is found that the banks in the private sector possess more capital buffers and enhanced risk management structures. With consolidated banks having undergone governance reforms, public sector banks have improved significantly. The report highlights that the quality of assets management, digital integration and strategic practices of decision making in both ownership structures is the key to sustainable banking performance.

### III. SCOPE OF THE STUDY

The locality of the research is confined to a comparative study of management practices of the State Bank of India (SBI) and HDFC Bank using secondary data in the preceding three financial years (202223202425).



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In this study, specific measurable financial measures are used to determine efficiency in operations, efficiency in employee productivity, and quality of assets using Cost-to-Income Ratio, Profit per Employee, and Gross Non-Performing Asset (GNPA) Ratio. It is not about primary data, perception of customers, evaluation of service quality and analysis on a branch level. The results are limited to consolidated financial performance and are aimed to learn the effects of ownership structure on managerial efficiency in both the public and the private sector banks.

IV. OBJECTIVES

1. To Compare the cost efficiency of SBI and HDFC Banks
2. To Analyse employee productivity between the two banks.
3. To evaluate assets quality performance of two banks.

- *Comparison of cost efficiency of two banks*

$$\text{Cost to income ratio} = (\text{Operating expenses} / \text{Operating income}) \times 100$$

Year	SBI	HDFC Bank
2022-23	66.98%	40.61%
2023-24	70.45%	59.98%
2024-25	65.28%	61.53%

*Source: Annual Report*

The Cost to Income Ratio represents the efficiency of banks in terms of cost management, the low ratio shows more efficient management of cost. In the year 202223, HDFC Bank is more efficient as its ratio of 40.61 is compared to that of SBI of 66.98 meaning that it has lower operating costs in comparison to revenue. In 202324, the ratio however increased in both banks with SBI increasing to 70.45 per cent and HDFC Bank to 59.98 per cent indicating an increase in the operational costs.

But in 202425, SBI became more efficient as the ratio was decreasing to 65.28, whereas HDFC Bank stayed a bit above with a ratio of 61.53. Generally, though HDFC Bank retained a relatively high cost efficiency, the difference between the two banks reduced during the 3 years' period, attesting to the performance of operation in SBI and the trends of rising expenditure in HDFC Bank.

- *Analysis of profit per employee*

$$\text{Profit per employee} = \text{Net Profit} / \text{Employees}$$

Year	SBI	HDFC Bank
2022-23	0.21	0.25
2023-24	0.26	0.29
2024-25	0.29	0.27

*Source: Annual Report*



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Profit per Employee ratio indicates the level of productivity of employees as well as the level of efficiency in operations, and the ratio of Net Profit to the number of employees. In 202223, HDFC Bank was more productive at 0.25 crore per employee than SBI was at 0.21 crore. In 202324, the two banks have improved, as SBI rose to 0.26 crore and HDFC Bank to 0.29 crore, as it continued to lead.

SBI however, slightly increased its SBI in 202425 to 0.29 crore, whereas HDFC Bank, reduced to 0.27 crore. It means that, though HDFC Bank has shown better productivity fluctuation, SBI has demonstrated steady growth during the period of three years and has finally out-performed HDFC Bank in the previous year that shows the enhanced profitability and better efficiency of the workforce.

- *Comparison of Asset Quality of the two banks*

Year	SBI GNPS %	HDFC Bank GNPA %
2022-23	2.78	1.12
2023-24	2.24	1.24
2024-25	2.07	1.33

*Source: Annual Report*

An analysis of the SBI and HDFC Bank assets quality is made through the GNPA ratio, which shows a significant difference in the handling of credit risks within the three years. By 202223, SBI had a GNPA of 2.78, which is considerably larger than 1.12 of HDFC Bank, indicating that the asset quality of SBI is a bit poorer. Over the particular years 202324 and 202425, the GNPA ratio of SBI has continuously improved and steadily dropped by 2.24% and 2.07, respectively, indicating that SBI is improving in terms of recovery and credit monitoring. On the other hand, the GNPA of HDFC bank had gone up marginally between 1.12 and 1.33 percent in the same period, whereas it was lower than it was at SBI at all times. In general, HDFC Bank had high-quality assets, whereas SBI showed the steady improvement in terms of non-performing assets reduction and enhancement of risk management.

#### V. CONCLUSION

The comparative analysis of SBI/HDFC Bank indicates that there are great disparities in the management practices that are dependent on the ownership structure. HDFC bank has better cost efficiency and quality of asset which indicates good risk management and flexibility in operation. SBI on the other hand demonstrates more business reach and mass financial inclusion.

The banks in the private sector are highly profitable and efficient based on their performance measures, whereas those in the public sector have a significant socio-economic role to play in the society. The results indicate that management freedom, adoption of technology and type of governance are highly effective in the performance of banks. The combination of the strength of the public sector outreach and the efficiency practices of the private sector would give a stronger banking system in India.

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