Chapter VII

Conclusion And Implications

The financial sector reforms adopted by the country in the wake of liberalisation, privatisation and globalisation have brought a new scenario of competition, customer-orientation and quality services. This paradigm shift from over regulated banking environment to liberalised milieu, where banks have the freedom to take various policy-type strategic decisions, make tactical plans and programmes, and plan and control the day to day operations, the new opportunities and threats have come up in the market place. To tap the new opportunities and take precautions against the threats, the banks have to use their core competencies for achieving a sustainable competitive advantage. Towards this end, the banks have to re-engineer their planning and control systems.

The planning and control systems comprise of strategic planning and control, tactical planning & control, and operational planning & control. To evaluate whether the banks in India have responded to the new changes and re-oriented their Management planning and control systems, and whether the systems prevalent in these banks are effective and efficient in the achievement of the organizational objectives, the study in preceding pages was completed in seven chapters. These include the background of the research design and critical review of theoretical and empirical literature which form the subject matter of first two chapters. For the other three chapters, the field study was
conducted by employing both exploratory and empirical approaches of research. In the present chapter, an attempt has been made to recapitulate the major findings of the study to draw conclusions and offer suggestions at suitable places wherever necessary.

Strategic Planning And Control

The study has brought it to the forefront that strategic planning and control is indispensable in a liberalised environment which is market-driven and customer-oriented. The banking sector in India, of late, has realized the significance of the strategic planning and control as is evident from the study of two selected commercial banks. It is implied that nationalized banks because of their formalized strategic planning and control systems have tapped some new opportunities in a more aggressive way than the private sector banks where the strategic planning is done more or less informally and with less-developed methods. However, both the banks have more or less same perceptions of the environmental opportunities and threats and internal strengths and weaknesses in the pre and post-liberalised periods; of course, with certain minor differences. Thus every bank tried to adjust itself to the new milieu, but in a limited way.

The study reveals that A-Bank reacted in a more calculated way and explored the new business areas like merchant banking, portfolio management, mutual funds, leasing and factoring services. Also the new products like consumer credit cards, travelers' cheques, bond bonds, home loan accounts, telebanking, ATM'S, Export and import finance and specialised branches for certain segments of customers like industrial finance have been introduced to reap the opportunities in the new environment. But despite all this, A-Bank has not been able to reap the fruits of new environmental
opportunities in a big way and compete the foreign Banks and newly set-up private sector banks because of the lack of well developed strategic planning systems and the appropriate organisation structure for establishing various strategic business units on the basis of geography and on the basis of products which need to be developed on scientific lines. Towards this end, the services of management consultants may prove very helpful for designing a better strategic planning and control system.

The study further reveals that the B-Bank did not plunge into the new business areas and could only consolidate the existing facilities for survival in the competitive scenario; thus introduced in a limited number of branches, a very limited range of products like home loan accounts, specialised finance for SSI units and only one ATM in one branch.

The reason being the lack of formalised strategic planning and control system which could have scanned the environmental opportunities through SWOT analysis and activated the bank to diversify and expand in lucrative areas of business and increase its range of products. Thus it is suggested that a well developed strategic planning & control system may be introduced in the B-Bank and to run this, certain specialised people may be recruited to man the key positions in the strategic planning department and place only those employees on other positions in this department who have a basic aptitude to strategic planning and also a thorough understanding of the new economic policies and market opportunities. This demands a rigorous training to the existing staff regarding various aspects of strategic management and changing banking environment.

Thus if the Indian commercial banks have to survive and grow in the new millieu, they will have to be
pro-active and formulate necessary strategic and per-
spective plans so as to face the challenges of the
time. For this they will have to formalise their
strategic planning and control systems by the profes-
sionals and specialised manpower with the latest tech-
nology and other facilities available, so that they can
act as a think-tank for the organisation and would
recommend internal changes from time to time, to maxi-
mise its strengths and minimize weaknesses, to utilise
the environmental opportunities and threats for its
gains and be able to attain and maintain sustainable
competitive advantages.

Tactical Planning And Control

The study reveals that this aspect of Management
planning and control systems is followed by the commer-
cial Banks by adopting the Performance Budgeting Sys-
tem. This System has been in practice in the banks
under study since late 1970's and it is expected that
with the march of time the system might be mature and
deeply percolated down to the grass root level. Howev-
er, the following observations were witnessed by the
investigator during the study which need to be ad-
dressed by the respective banks:-

1) There is not concurrence of objectives of perfor-
mance budgeting among various levels of manage-
ment. The top level ranked one objective as the
most important, while as the middle management
gave first preference to some other objective. In
the same way the branch level managers had their
own ranking of the objectives of performance
Budgeting. This suggests that the clarification
of objectives of performance Budgeting has not yet
fully percolated to the grass-root level, which
has affected the goal-congruence to a great ext-
tent. This demands a thorough training programme
for all functionaries of management wherein the objectives of the performance Budgeting system as a planning and control tool would be explained and cleared.

2) Regarding the formulation of draft branch budgets, it was observed that the branches have started recognising the market factors to give weight-age to customer's need and aspirations in their areas because of the competition of foreign and newly set-up private sector banks.

3) For formulating the draft branch budgets, the executives are making use of routine environmental data sheet. They are also using certain additional information which is available at their level like Lead Bank documents and some survey either made personally or through some social contact in the command area. The information gathered through these methods is still insufficient to have a clear picture of the socio-economic profile of the command area. If the branch managers would consult the data collected by the statistical agencies of their respective states which publish statistical profiles of various areas/districts/villages/divisions or the whole state; or certain reports published by various research institutions like universities etc., the information could be enriched with these data. Moreover, since a bank manager is always pre-occupied in the branch, he gets very little time to make a personal survey of the command area. For this purpose if a branch is provided with a specialised staff officer who would collect the data from the branch-command area and environment and accordingly advise the manager about the plans of the branch to be undertaken in response to the changes taken place in the command area and branch environment. In this
way, branch level planning and branch budgets would be based upon the real potential of the command area.

4) Designing the objectives of an organisational unit in consultation with those who have to implement them ensures better results and good performance has been proved by various research studies. However, the banks under review have not realised it and generally do not involve the staff at the branch in drafting the branch budgets; and if at all they consult them on this count, they do it very occasionally. This creates a gape between the boss and subordinates and the initiative and commitment of subordinates. This demands a total change in the attitudes of the branch manager to involve and encourage their staff to give suggestions about the formulation of branch budgets.

5) In the settlement of the branch budgets, although in majority of cases the targets are made jointly by the branch manager and the controlling office, however, there is a quite large number of cases in which targets are first made by the higher authorities and then discussed with the branch managers for finalisation. The main problem with this system is that the majority of the regional/district managers have rough targets in their minds while going to attend the settlement meetings instead of going to listen to branch managers open-minded and decide the targets for the branch. This puts the branch managers at a disadvantage as they have to compromise (because of authority of controlling officers). In this way the democratic spirit of performance Budgeting is defeated through this practice.
6) In deciding about the finalisation of the branch budgets while as the main deciding factor should have been the potentials of the branch environment, the commitments and promises of the regional/ district / area managers to their superiors also played an important role in the budget settlement. This reduces the performance budgeting system to merely target-setting exercise.

7) The branch managers in majority of the cases complain that they do not get full support from the higher authorities regarding manpower requirements and physical facilities, which need to be attended to so as to enable the branches to meet their budgetary targets and explore their full business potential.

8) With regard to performance Monitoring and Evaluation, the procedure adopted in the performance review shows that, in general, the controlling office is the main authority that evaluates the branch performance; and the spirit that every branch has to use its budget for the self-evaluation has been defeated altogether. For appraising performance at the regional/ district/ zonal/ divisional levels, the discussion takes place between the regional/ district/ zonal/ divisional managers and chairman along with functional heads, but the viewpoint of the latter prevails which is again against the democratic spirit of performance budgeting concept.

9) So far as the periodicity of working out budgetary targets and submission of performance reports is concerned, although the majority of the executives reported that quarterly and six-monthly performance targets and reports about their performance was popular in the banks. However, the varied
responses explains that the working out budget targets and the periodicity of submission of reports is not fully clear to the executives, which needs to be attended to by the higher authorities.

10) The non-financial parameters as one of the performance measurement indicator used by the banks comprised of number of customer complaints, state of industrial relations, house-keeping, total number of accounts, non-fund based business only. The qualitative aspects of non-functional parameters may also be used in performance evaluation. These may include promptness in submitting returns/statements to controlling office/H.O., honesty and dedication, performance towards social development etc.

11) In the Variance Analysis Process, the banks do not involve the subordinate executives at various levels. In majority of the cases the banks have not fully realised that participative performance budgeting and variance analysis have special significance for banks to make targets operationally feasible and variance analysis sincere, serious and purposive.

12) While taking corrective action about the variances, although various decisions like deposit mobilisation strategies changes and credit policies revised at the regional/district level are taken. However, the branch managers complain that redeployment of resources such as manpower takes a lot of time between their requisition for additional hands upto their final arrival, which results in poor performance of the branch in further period as well.
13) While making an inter-branch comparison, the potential of the environment of each branch should be taken into consideration, not that if a manager is placed in a branch where the business potential is least, his comparison is made with the manager of another branch where business potential is better.

14) The banks are still following a traditional and out-dated Management Information System (MIS) because of which delays in reporting takes place. Thus decision-making which have strong repercussions upon the performance of the branches/regions/districts gets impeded for the want of timely information. This issue needs to be addressed by computerising the MIS of the banks.

Operational Planning And Control

The study manifests that in case of commercial banks, the operational planning and control relates to the day-to-day activities of the banks so far as rendering the services to the customers are concerned. At the branch level, the operational control aspects are concerned with the efficient planning and control of i) Fund-based activities like Deposits and Advances; ii) Fee-based activities like Remittances, Travelers' Cheques, D.D. Purchases, Outward Collections, Collection by small branches on behalf of big branches, letters of credit, bills business etc., and iii) control of efficiency of operations through profitability management like spread management, Burden management and so on. To exercise effective control over all these activities either in-built mechanism is developed in commercial banks or control techniques like Morning checking, control reports, concurrent audit, periodical inspections and internal audit by the concerned department, surprise inspections by senior executives and
statutory audit are applied. The summary of the main findings regarding the operational planning and control as exercised in A-Bank and B-Bank is presented as under:-

i) Fund-Based Activities

In this field, the study was made regarding Deposits and advances and the problems of banks under-study with respect to these two activities as brought forth by the study are related with the Transfer price mechanism and the credit management in a bank branch.

So far as the transfer price is concerned, both the banks fix up the interest on H.O balances with branches and branches' balances with the H.O arbitrarily as complained by most of the branch managers which acts as a dis-incentive to the performance of the branches. It would be desirable if the transfer price mechanism would be set on a basis/formulae which would motivate the branch managers, is simple to administer, and be a better criterion in measuring the branch performance and is duly communicated to the branch executives for the effective goal-congruence in the overall bank. Towards this direction, the formula for the funds transferred to H.O may be suggested as follows:

"Overall yield on funds less service costs of advances as a percentage of total deposits plus central office expenses as a percentage of total deposits."

For the funds transferred from H.O. to branches, the transfer price may be based on, "the average yield on advances less service cost of advances as a percentage of total advances."
Regarding the credit planning and control, following measures are suggested to bring efficiency:

a) Banks should make pre-sanction and post sanction inspection on a regular basis in order to ensure the proper utilisation of the assets acquired, so as to see that the expected income generation is there, for prompt repayment of installments.

b) On the pattern of quality circles, "Recovery circles" may be formed in a branch, wherein a group of branch employees meets informally with branch manager and loan officer as members only. The circle can gather the information, study the borrower a fresh and suggest strategy for recovery. While discussing the borrowers in the meeting, some members may come out with suggestions on such borrowers like names of the influential persons through whom the borrowers can be pressurised.

c) In each bank a special recovery cell may be created to formulate policies and strategies of loan recovery at each tier of the organisational hierarchy.

d) If payment schedule is not according to the convenience of the borrower or a unit is not able to generate expected profits during a particular period which corresponds to the loan installment, possibility may be explored for re-phasedment of the loan installment in consultation with the borrower.

e) Banks should encourage acquisition of sick units by the healthy units, wherever they feel it may reduce the NPA's. Banks may even help the sick units to get suitable buyers as bank has contact
with a large number of unit holders.

f) Under the government sponsored schemes, as the beneficiaries of the sponsored programmes are incapable of making financial decisions, the implementing agencies should assess the suitability of the activity to the borrower and extend training facilities to the proposed beneficiaries wherever required.

g) There should be regular recovery camps/meetings, (for the loans given under IRDP, and other rural schemes) in each village, to highlight to the borrowers that there will not be any more loan waivers and that the loan should be repaid in time.

h) There is a need to fix targets to the field functionaries not only for the implementation of the schemes but also for the recovery of the loans given in the earlier years. Periodical inspection of units financed in the earlier years and follow up of their job and their performance may be reviewed on the recovery front as well, during the regular reviews.

i) The village level workers may be advised to maintain the registers for details of various borrowers under Govt. sponsored schemes to ensure regular follow-up.

j) The recovery cases may be referred to the Recovery tribunals, if non-legal methods fail to bear fruit.

k) To minimise the chances of a loan becoming an NPA, the viability of the proposal needs to be investigated very deeply which demands up-gradation of
skills of the appraisers. To introduce skill upgradation, it is essential to introduce a certain degree of specialisation which may be done by cadre-creation from the recruitment and post-recruitment stages. And training should be the regular feature of credit appraisers.

1) Banks can also make use of expertise of credit rating agencies in areas of credit appraisals. For instance, CRISIL and ICRA, the leading credit rating agencies in India, are offering products to perform these appraisal functions. CRISIL has its own product called Bank Loan Rating (BLR) while ICRA has an internationally tested model called WINFAST (designed by a Moody subsidiary). These products could at least be used where required to confirm the banks' own evaluation.

ii) Fee-Based Services

In order to enhance the business from the fee based activities, the suggestions may be the following:

a) Certain incentives and disincentives may be introduced in the performance evaluation of the branches. A part of the income accruing to the overall bank from the Remittances (drafts, mail transfers and telegraphic transfers), Travelers' cheques, etc., may be credited to the branches in their business ratio which are originating these activities. In the same way small branches which are making collections on behalf of large branches should share such income with these big branches. Certain branches which are not authorised to deal in foreign exchange (Forex) get accounts opened on behalf of their clients through forex-active branches. The forex dealing branches should share 50% of letters of credit commission with non-forex
branches acting on behalf of the former. Similarly, in case of bills business, the drawer branch should share some % of income generated with the drawee branch to compensate the latter for the work handled on its behalf. This % may be determined by the central office on the basis of the time and motion study and as a part of the transfer price mechanism. On the same analogy, a given percentage of the aggregate amount outstanding in DDP books, i.e. those whose acknowledgements are not received and marked off for more than 15 days, may be deducted from the net results of the branches as a dis-incentive.

b) For providing various services to the customers, the time norms formed by the IBA should be displayed visibly at every branch and followed strictly. This would act as a boon for increasing the banks business.

iii) Efficiency of Operations:

There are no two opinions that the operations of a bank need to be performed efficiently i.e. least cost should be incurred for performing each activity. This requires that the costs should be reduced and revenues should be improved through better spread and Burden management. The main suggestions in this field are given below:

a) To increase returns from advances, efforts should be made to book more and more accounts falling under C&I and SSI units as interest in these two categories of advances is remunerative.

b) In order to reduce the cost of funds, efforts should be made to attract more and more low cost
deposits, viz. current Accounts, Saving Accounts etc.

c) Fix-up the competitive interest rates as and when they are fully de-regulated. In this direction, the computation of the cost of bank funds may help to take an efficient price and production decision.

d) Attempts should be made to arrest the income leakages so far as the interest calculation of products, application of interest on due date, claiming refinance without any delay, correct payment of interest on TDR's rounding off the product to nearest 10 and no payment of interest below rupee one are concerned.

e) To reduce the costs of stationary, electricity charges, postage, telephone, traveling allowances, etc. Careful planning and conscious efforts may help to keep these costs in check.

f) For charging the price of the fee based products the computation of the costs in offering these services may be used as a main criteria. This calls for a well developed costing department manned by the qualified costing professionals so that cost per voucher, per Rs. 100, per account, per employee, etc., may be obtained to take various operational decisions in the bank.

g) For evaluating the performance of branch, in addition to the techniques discussed above, the parameters of profitability, productivity and efficiency may be used.
IV) Control Techniques:

In addition to the above measures, the following steps may help to exercise effective control on bank branch operations:

a) Morning checking may be used as a necessary control technique in the branches where it is not in vogue.

b) Multiplicity of periodical statements and the repetition of the information to various levels/departments may be drastically reduced. It would be desirable if only a few reports may be desired which would act as master statements by containing data about various activities of the branch. On the raw data of these statements various reports could be prepared with the help of suitable computer programming. In this way, the reporting (MIS) system would be cost efficient and decision effective.

c) The internal audit department may be encouraged to review the systems and procedures as well, instead of laying more emphasis on the following of the existing systems and procedures. The suggestions of the branch staff may be sought in this regard but in a friendly atmosphere.

Behavioral Implications of Planning and Control Systems

On the basis of an empirical study conducted in the two banks (A-Bank and B-Bank), this chapter has brought forth certain behavioral issues which need to be addressed to make the planning and control systems in these banks administratively effective. These issues if left un-attended would work as dysfunctional impediments for the goal-congruence of the system and
hence would adversely affect the achievement of the overall organisational objectives. The main suggestions in this direction are described below:

i) Attempts should be made to bring positive improvement in the administration of the planning and control systems with the result, the attitude of the branch manager gets favorable for the system. This can be done if the controlling offices try to understand the problems of the branches so far as their business potential and infrastructure is concerned and their budgets are formed only after taking these factors into consideration. Moreover, budgets should be used as instruments of encouragement to improve efficiency and not merely as pressure device to propel the branch performance. A feeling should be created among the branch and middle managers that they not only should be worried for the figures in the budget but through mutual trust and confidence can contribute to the overall goal-congruence in many other ways in the long run.

ii) The understanding of the uses of the planning and control systems has not percolated down to the grass-root level, as the executives at the branch level have not graded the system as very much useful for the achievement of the overall organisational goals. Even the majority of the middle level managers hold the same opinion. The understandability of the uses of the MIS reports in taking various tactical and operating decisions like formulating budgets, reviewing activities and identifying weaknesses, needs to be cleared to the executives through a rigorous training programme.

iii) The effectiveness of the system has been hindered because of the lack of full support and coopera-
tion from all functionaries operating it. The supportive group process has not been achieved to the fullest extent. The behavior of the managers can be moulded if some change is brought in the group process. This can be done if the decisions in the organisation are taken democratically, giving a fair chance to the subordinates to express their views accept their suggestions with due acknowledgements and hold meetings to analyse and understand the problems of individual managers.

iv) To earn the commitment and dedication of the branch and middle managers, the system need to be well administered because a system well administered leads to high commitment. This demands that the executives should be encouraged to attend training programmes & briefing sessions with superiors in a free and frank atmosphere so that they develop a self understanding of the different aspects of the systems as the managers who perceive themselves to have understood the Management control system well will tend to show greater commitment to the planning and control system.

v) The perception of the branch and middle managers regarding the internal environment of the organisation is more or less satisfactory. However, to increase the satisfaction of the branch managers further it requires that a change in the behavior of their subordinates needs to be brought which is possible through a training programme to be designed for the branch staff.

vi) It is an admitted fact that the clarity of the planning and control system leads to effectiveness. This clarity is to be brought in the areas of goals, process and concepts used in the system.
For ensuring the clarity of these three items it is believed that written communication is the most effective method primarily for three reasons; First with the growing organisational size, personal relationships gradually lose importance and more formal channels are used for communications, Secondly in large organisations, the quantum of information flow is so enormous that the necessity of maintaining systematically a record of all information becomes important. Finally, written communication exerts considerable pressure on the communicator to be specific and clear. Consequently the quality of communication improves, and this too leads to greater effectiveness.

vii) The use of performance budgeting as an instrument of performance evaluation invites attention of the management in the organisations under study. While using the Planning & Control Systems (PCS) in the performance evaluation, sufficient care is to be taken by the superior managers, as to relate a technical instrument with the human behavior may give rise to various dysfunctional issues which may prove counter-productive for the organisations. The superior managers must understand that they are dealing with a complex human being and sometimes the budget variances can be confusing and misleading and can not be a true measure of one's performance. In this case, the past performance of the executive and the impression of his colleague s/subordinates and earlier superiors may be helpful in evaluating his true performance. Moreover, the superiors are showing more concern towards short term target achievement rather than long term effectiveness of the system which needs to be addressed from the view point of effectiveness of the overall control system and goal congruence of the entire organisation.
Concluding Observations

The overall conclusion emerging from this study is that the banks in northern India though have started to realise the importance of market forces which resulted from the new economic environment, however, the pace of their responses to the changing market realities is slow which needs to be augmented by bringing a structural change in their planning and control systems along with a perceptible modification in the behavior of their managers. In this direction, the suggestions offered in the proceeding pages may go a long way in bringing a scientific rationale in the planning and control systems in the banks under study.