Chapter I

Introduction

The adoption of new economic policy in 1991 resulting in the liberalisation, delicensing, decontrol and deregulation has brought in its wake a metamorphic change in the overall financial system of the country. In the light of this policy, alongwith other sectors of the economy, various reforms were introduced in the banking sector in recent years. The policy measures like delicensing and granting freedom to rationalise existing branch network, cheap money policy and deregulation of interest rates, change in the statutory liquidity ratio and cash reserve ratio, liberalisation of banks' lending norms, fixing of norms for capital adequacy and income measurement, allowing the banks to tap the resources from the capital market, and opening up the banking service industry to the private and foreign sector have posed severe challenges to the banking institutions. In this way, the very concept and philosophy of banking is, therefore, undergoing a paradigm transformation and the banking establishments are making strategic shift in favour of market forces in tune with the demands of the new environment. Thus in the changed milieu, every banking organisation tries to utilise its resources in the most efficient and effective way. This calls for the need to propound new concepts, develop new skills, redefine the objectives and goals, formulate new strategies and reorient training and modify attitudes of the executives at each level of the organisation. All this adds a new dimension to the task of management and organisation of
banking companies and has called for a review of their mechanism of managerial planning and control systems which function in the same way as the human nervous system. It reacts and interacts with the environment and leads the organisation to fetch the sustainable competitive advantage by scanning the environment and making analysis of the organisation's strengths and weaknesses to tap the new opportunities amidst of various probable threats prevalent around the organisation.

Thus Management planning and Control Systems are the main instruments (Prima Donna) for orientating to changed circumstances. A well designed and well implemented management planning and control system, therefore, becomes imperative for a banking company because it enables the company to take numerous strategic, tactical and operational decisions in the best possible way to ensure goal congruence in all the units (head office, zones, divisions, regions, branches, sections etc.) of the organisation.

Therefore, the need arises to identify the changes of post-liberalization in the financial environment and study how these changes have affected the functioning of the banking sector so far as the planning, implementing and control of their objectives, goals, policies, strategies, programmes, operations and activities are concerned. In this backdrop the study has been conducted titled, "Management Planning and Control Systems in Commercial Banks in Northern India - A study of selected banks."
Objectives

The study aims at the following objectives:

1. To identify the recent policy measures launched by the government in the financial sector and analyse how the banking companies have used them for their advantage.

2. To examine the structure and process of the management planning and control systems, prevalent in the organisations under study.

3. To explore the behavioral aspects of certain variables of the Management Planning and Control Systems like setting standards and budgets, formulating strategies and policies, attitude and commitment towards the system, managerial satisfaction and suitability of the system to the individual managers etc.

4. To evaluate the efficacy of the management Planning and Control Systems and find out whether the systems have responded to the changes that took place in the banking environment.

5. To analyse the strengths and weaknesses of the system, vis-a-vis to bank's profitability and productivity.

6. To suggest remedial measures, on the basis of the study results, for improving the Management Planning and Control systems in the Banking enterprises, under study.

Hypothesis

The above given objectives have been studied in the light of the following hypothesis:

1. The commercial banks have not oriented their management planning and control systems in tandem with the recent changes in the financial system.
2. The design of the existing management planning and control systems in the banks is not efficient and effective for their overall goal congruence.

3. The behaviour of the executives towards the planning and control systems in the banks is not favorable and thus is hampering the effective administration of the same.

Sample Design

The study was to cover three commercial banks representing three categories of banks operating in northern India viz., Public sector- nationalised banks, private sector banks and foreign banks. Since each category of the banks have its own traditional and peculiar styles of ownership and managerial functioning, therefore, one bank has been selected for each class to make the study comprehensive, comparable and objective. However, for maintaining secrecy, the names of these banks have been disguised as A-Bank, B-Bank and C-Bank representing public sector- nationalised, private and foreign banks respectively. The selection of these banks has been made on the assertion of Sapp, Richard ("Banks look ahead: A survey of Bank Planning", Magazine of Bank Administration, July 1980), that the banks which are bigger in size have mature planning and control systems; which is based on his study of 302 banks in the USA. In this way the banks as included in this study are the biggest in size and also in the volume of their business in northern India in their respective categories (as shown in Appendix II). However, most of the sample banks selected for the study, only two banks, viz, A-Bank and B-Bank participated in the study and the C-Bank did not allow the researcher to make the survey. Therefore, for further analysis and discussion, the C-Bank has been excluded from the domain of the study, as a result of which the study
relates to Nationalized- Public Sector Banks and Private Sector Banks in Northern India.

Data Base

In data collection both the research approaches exploratory and empirical were followed. The former (exploratory) was used in building a framework and studying the design of the planning and control systems in use, and the latter (empirical) to study the effectiveness of the administration of these systems. To gather the detailed information required for the study, attempts have been made to collect both primary and secondary data as described below:

1. **Primary data** : The primary data was collected through:

   a) Well designed questionnaires for each level of management, viz. top middle and operational.

   b) Interviews and personal discussions with the top, middle and operational level executives of the organisations under study.

2. **Secondary data** : The secondary data was obtained from:

   a) Official records and files of the organisations;
b) Annual reports/accounts-of the organisations under study published from time to time;

c) Publications of various banks in India like PNB monthly review, SBI monthly review, PIGMI economic Review etc.

d) Information published by various government, semi-government and other allied agencies like Ministry of Finance- Govt of India, Reserve Bank of India, Indian Banks Association, National Institute of Bank Management- Pune, Indian Institute of Bankers and so on.

e) Reports of the special committees appointed by the central government/ RBI/IBA/ different banks, from time to time pertaining to banking and financial sector.

Besides the relevant information published in various journals, periodicals, magazines, newspapers and books as mentioned in bibliography has been used for the study at appropriate places.
Administration of the Questionnaire

The questionnaires were served to the top, middle and branch level executives, after duly pre-testing them. Since the total number of executives in the banks was too large to be covered by an individual researcher, it was decided to employ sample method of study. Keeping in view the characteristics of the population and the variables to be studied, the stratified random sampling procedure was used. The executives were classified/stratified as i) Top Management, representing CEO level of the banks, ii) Middle Management, representing zonal/regional/divisional/district/area level managers, and iii) Branch managers. With a view to give sufficient representation to each organisation studied and the three levels of executives, the size of the sample was designed and the same is given alongwith the response rate as follows:

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<td>Middle Mgt.</td>
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<td>Branch Mgt.</td>
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<td>45</td>
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<td>71</td>
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Data Processing and Statistical Analysis

In order to reach to logical conclusions, the data collected, both from the primary and secondary sources have been arranged in a rational order and processed
both manually and by computer. Minor tables were prepared manually while cross tables involving large scale calculations were made with the help of the computer. As a precondition of data processing by computer, the verbal responses were converted into numerically symbols and properly coded.

For empirical analysis of the behavioral implications of planning & control systems, the need was felt to quantify the data which was otherwise qualitative in nature. Since the responses on the variables relating to behavioural aspects were obtained on the Likert scale from 'Strongly agree' to 'strongly disagree'. Therefore a 5-point continuum was used for the purpose. A score of '5' was given to the answer which represented the most favorable state of the variables from the viewpoint of the administration of the system. A score of '1' was given for the answers at the other extreme of the scale. The analysis of the data has been done with the help of various statistical techniques like ratio, percentage, mean and standard deviation.

Besides, wherever necessary, t-test has been applied to find out the level of significance of difference in mean scores between the levels of the management.

Structure of the Study

I. Introduction

This chapter deals with the research problem, enumerates objectives of the study and outlines the methodology used for the study.
II. Conceptual foundations and review of literature

This chapter explains the different concepts used in the study and reviews the existing literature on the subject and identifies the gap in the existing literature and thus highlights the need for the present study.

III. Strategic Planning and Control

This chapter scans the corporate planning process and strategic control practices, process of setting long term corporate objectives and goals, and monitoring and reviewing these goals in the light of the recent environmental changes that have taken place in the banking sector.

IV. Tactical Planning and Control

This chapter assesses the process and structures of the tactical planning and control at the middle-level management. The administrative control exercised through performance budgets and performance evaluation has been examined. The process of control followed in various responsibility centers have been investigated.

V. Operational Planning and Control

At the operational level of management, the day to day operational controls administered at lower ebb of management, with the help of certain management & accounting techniques have been appraised in this chapter.

VI. Behavioural Implications of Planning & Control

In this chapter the effectiveness of administration of the planning and control systems in the sample
banks is evaluated. The human behavioural problems which act as impediments in the effective administration of the planning and control systems have been analysed.

VII. Conclusion and Implications

The last chapter contains the concluding remarks, general suggestions and policy model for the improvement of management planning and control systems in the commercial banks understudy.