CHAPTER 1- Introduction and Research Methodology

This chapter focuses on the MAS using some major concepts of management audit and Indian banking industry. The researcher has outlined the company profile, need of study, objectives of the study and the methodology followed during the research work. The researcher winds up the chapter with a few limitations of the study.

1.0 Introduction

For five decades, we have been watching that volume of business growth is not in proportion to the rise in expenditure and investment in the new projects and the expansions of the present industrial projects, unless increase in the productivity, in line with high capital ratio, is achieved, improvement in the economy is not possible. In the modern age, it has been realized that efforts must be made to set up aggregate growth per performance of the business enterprises, a progressive reduction in the incidence of poverty and unemployment. To achieve the set goals, the productivity has to be improved and thereby the performance of the business unit has to be increased. It has therefore been suggested that induction of the management audit in every business enterprise has become essential in the present era.

It is the audit conducted to examine all aspects of management in business. It includes the examination of plans, objectives means of working, utilization of physical resources, organizational patterns, and coordination of various activities at all levels and control of the entire business. Management audit takes into accounts both financial and non-financial factors. Thus, management audit signifies critical assessment of the enterprise from the broadest possible point of view. It reviews the company’s past, present and future. Management audit now widely practiced to evaluate management’s objectives, the extent to which they have been achieved and company policies and producers complied with, especially in large scale business organizations.
1.1 History

Management audit as a concept in management literature evolved over a period of seven decades. It was T.G. Rose, an industrial consultant from the United Kingdom who had first introduced the concept of management audit in a paper he presented in 1932 before the Institute of Industrial Management (now merged with the British Institute of Management).

The management audit concept, however, received greater attention in the United States of America. Jackson Martin dell, an investment consultant and founder President of the American Institute of Management (incorporated in 1948) developed a logical system of the concept of management and employed it for evaluating 52 publicly owned companies from 1948 to 1960. These studies were published under the title, “Investment Value of Management Excellence”.

1.2 Meaning and Concept of Management Audit

The term ‘Management Audit’ is composed of two words, ‘Management’+ ‘Audit’. Management is used to mean “the work of creating and maintaining environments in which people can accomplish goals efficiently. These environments involve the integrated use of human, financial and natural resources for the purpose of achieving goals.” The word audit refers to a systematic examination by an independent person, of financial statements, management functions and related operations to determine adherence to generally accepted accounting principles, management policies and stated requirements. Auditing is as old as human civilization. It was used in ancient Egypt, the Roman Empire, and of course the great mercantile establishments of the middle Ages. The common areas of audit action throughout its history have been examining, verifying and reporting. Audit has been a key factor in controlling economic and financial aspects of an organization.

On the basis of the above, the term ‘Management Audit’ may be defined as a systematic examination of management’s efforts to accomplish goals efficiently and effectively in order to determine adherence to the management policies and stated requirements. To accomplish the goals efficiently,
management has to perform certain operations. Management Audit critically examines these operations. The audit attempts to evaluate managerial performance. That is why it is also termed as ‘Performance Audit’ or ‘Performance Appraisal’. The main aim of performance appraisal is to evaluate managerial efficiency. Consequently, it may also be termed as ‘Efficiency Audit’.

1.2.1 Traditional Concept

Simply defined, the management audit is a comprehensive and thorough examination of an organization or one of its components. The audit is implemented to identify problems or significant weaknesses in the organization or corporation, thus providing management with a tool to address and repair the problem area.

The term management audit is commonly used for examination and appraisal of the efficiency and effectiveness of management in carrying out its activities. Areas of auditor interest include the nature and quality of management decisions, operating results achieved, and risks undertaken.

The management audit focuses on results, evaluating the effectiveness and suitability of controls by challenging underlying rules, procedures, and methods. Management audits, which are generally performed internally, are both compliance reviews and goals-and-effect analyses. When performed correctly, they are potentially the most useful of evaluation methods, because they result in change.

1.2.2 Modern Concept

Management audit is the composition of several audits such as Environment audit, Human resource audit, Quality audit, Managerial style audit and Secretarial audit. These audits are helpful not only a strengthening internal soundness but also the external activities resulting in evaluation of overall performance.
It is a new concept in the sphere of auditing and also still in the process of evaluation, it is also known by the name of efficiency audit. It was United States of America, which coined the term management audit. The management audit means the audit of management process and function; it is a comprehensive examination and a critical view of management. Management audit ensures the efficiency of all areas covered by the management.

### 1.3 Definition of Management Audit

**T.G. Tokhe**, “The Management Audit has been defined as a comprehensive critical review of all aspects of process of Management”.

**William P. Leonard**, “A comprehensive and constructive examination of an organizational structure of a company, institution or branch of Government, or of any component thereof, such as a division or department, and use of human and physical facilities”.

These definitions have pointed out that the management audit deals with the management process as a whole. It facilitates the most effective relationship with the outside world and the internal efficiency of the business.

A long, but a comprehensive definition has been given by **L.R. Howard** as given below:

**Leslie R. Howard**, “Management audit is an investigation of a business from the highest level downwards in order to ascertain whether sound management prevails throughout, thus facilitating the most effective relationship with the outside world and the most efficient organization and smooth running internally”.

**Taylore and Perry**, “Management auditing is a method to evaluate the efficiency of management at all levels throughout the organization, or more specifically, it comprises the investigation of a business by an independent body from the highest executive level downwards, in order to ascertain
whether sound management prevails throughout and to report as to its efficiency or otherwise with recommendation to ensure its effectiveness where such is not the case”.

According to *Business Dictionary*, “Systematic assessment of methods and polices of a firm’s management in the administration and the use of resources, tactical and strategic planning, employee and organizational improvement. Its objectives are to –

- Establish the current level of effectiveness
- Suggest improvements and lay down standards for future performance.

Management auditors (employees of the firm or independent consultants) do not appraise individual performance, but may critically evaluate the senior executives as a management team.”

According to the *Institute of Internal Auditors*, “It is a future oriented, independent and systematic evaluation of the activities of all levels of management for the purpose of improving organizational profitability and increasing the attainment of the other organizational objectives”.

According to the *FFOIC*, “A systematic independent appraisal activity within an organization for review of the entire departmental operation as a service to management. The overall objective of operational is to audit and assist all levels of management in the effective discharge of their responsibilities by furnishing them with objective analysis, appraisal, recommendations and pertinent comments concerning the activities review.”

According to *American Institute of Management*: Management Audit is a diagnostic appraisal process for analyzing goals, plans, policies and activities in every phase of operation to turnover unsuspected weakness and to develop ideas for improvement in areas that have escaped from “Management Attention.”

From the above definitions, it would be evident that the management audit is an examination, scrutiny and appraisal of the plans, policies, objectives, and means of operation and the use of physical facilities. This reviews the policies
and actions of the management in turn. It will normally be so revealing as to encourage action of a perspective nature that will put into effect the objects for which it was originally demanded.

A management audit can be defined as an audit which analyzes the effectiveness of the management team of a company. The purpose of this is seven-fold: understand current practices, relate these to company financials, suggest new procedures which will improve the efficiency of managers, present a financial gain related to these new procedures, and create benchmarks and projections for the future. A management audit letter is the final piece of material shared with the client; it is a report of the findings.

1.4 Salient Features of Management Audit

- Management audit is of a recurring nature. It does not necessarily have an annual feature. It can be as immediate as three months or it can be as long as three years.
- The management audit need not necessarily be carried out after an organization has fallen sick. It is preventive rather than curative in nature. The apparently healthy and profitable units require the audit of their systems, procedures, methods, techniques and costs.
- The management audit has various facets which include the appraisal of corporate structures, directorate, fiscal policies, investor relations, and health of earnings, production efficiency, cost control policies, executive thinking and others.

1.5 Need for Management Audit

Many accountants regard management audit as a vague concept and argue that it serves no useful purpose. It is also argued that a review of past managerial actions and decisions would stifle the initiative and dynamism of managers. The example of government organization is quoted in this regard. The fear of a detailed scrutiny of their actions generates among the government officers a preference to keep their files up-to-date rather than achieve higher productivity or efficiency. Also, it is easy to review a past decision or action. A management auditor can easily criticize a decision on many grounds since he review it much later when all the information is
available. The decision-maker, on the other hand, faces a large number of uncertainties at the time of making a decision. Thus, management audit, it is argued, may discourage initiative and dynamism.

The critics of Management Audit do not realize that it is not really a detailed audit of the kind that the government auditors undertake. Management Audit is easily a review of the performance of various managers. It does not examine whether the prescribed producers have been followed or not or whether all the formalities have been completed or not. It evaluates the actual performance and compares them with the predetermined targets. It concentrates on the results and not on the files. It concerns itself primarily with the results and with the ratios of inputs and outputs. It measures in quantitative terms various inputs that a manager uses in terms of labor, material, overheads, or capital resources. The outputs are measured in terms of quantity, return or performance targets. The performances are evaluated by relating inputs with outputs. Thus, management audit is highly result-oriented. It can be particularly useful in situations like the following.

1. A progressive management may have management audit conducted periodically to assess the performance of various managers and link a system of incentives with such an assessment. This appraisal may conduct on the basis of objectives, predetermined standards.

2. In many circumstances, an outside agency may be interested in getting a management audit conducted. Thus, the government may order a management audit with a view to examining the efficiency of the management of a particular industrial unit. In the past, many sick units have been taken over by the government. It would be useful if the government takes over such units only after a detailed management audit. Through such audit, the government should try to judge whether the sickness of the unit is due to the particular way in which the present management is functioning or whether it is due to the circumstances beyond the control of the management. In case there is inefficiency, the
government may consider taking over the management. However, where it is found that the sickness of the unit is beyond the control of the management, the government may try to remove the constraints rather than take over the management itself.

3. A bank or financial institution may like to get a management audit conducting before advancing loans or before agreeing to participate in the equity capital of an enterprise. Institutions like Life Insurance Corporation, Industrial Finance Corporation, etc. participate in equity capital of many concerns. It would be useful for such institutions to get a management audit conducted before they commit funds.

4. Foreign collaborators may also like to get management audit conducted periodically. This would help them in assessing the managerial ability of their associates.

It can thus, be seen that management audit, if properly undertaken, can be an excellent tool of management control in many situations. This concept offers an entirely new dimension to the audit function and has great potential.

1.6 Objectives of Management Audit

1. To identify the overall objectives of the organization along with detailed targets and plans for various segments.
2. To ensure that management objectives and targets are being met.
3. To help the management to manage its affairs better, i.e., achieve the most efficient administration of the operation.
4. To assist all members of the organization in the effective discharge of their responsibilities.
5. To improve organizational profitability.
6. To reveal defects or weaknesses in any of the elements examined by the management auditor and to suggest improvements to obtain the best possible results of the operations of the concern.
7. To ensure the most efficient administration of the operations essential for smooth running of a business.
8. To obtain the efficiency and effectiveness of the management.
9. To suggest ways and means and for the achievement of objectives and targets set forth by the management.
10. To facilitate the most effective relationship with the outside world and the most efficient organization and smooth running internally.
11. To evaluate performance by relating inputs (human and physical both) with outputs.
12. To assist the management to establish good relationship with the staff to enable it to elaborate the duties, rights and liabilities of the entire personnel.

1.7 Advantages of Management Audit

It provides the following advantages:

- It helps the management in preparing plans, objectives and policies and suggests the ways and means to implement those plans and policies.
- The inefficiencies and ineffectiveness on the part of the management can be brought to light.
- The techniques of management audit are not only applicable to all factors of productions, but also to all elements of cost.
- Proper management audit techniques can help the business to stop capital erosion.
- It increases the overall profitability of a concern through constant review of solvency, profitability and efficiency position of the concern.
- It helps the top management in arriving at correct management decisions without any delay.
- It helps the management in strengthening its communication system within an outside the business.
- It can help management in the preparation of budgets and resources management policies.
- It can also help the management in training of personnel in marketing policies.
1.8 Disadvantages of Management Audit

There are some disadvantages of management audit can briefly be stated as follows:

- The introduction of management audit technique involves heavy disbursement.
- The managers will hesitate to take initiative, as the management auditor will always pinpoint some shortcomings in the action.
- The manager will always try to keep the records up to date rather than improving efficiency and reducing the cost.
- Due to ineffectiveness and inefficiency of the management auditor, in all cases, management audit cannot provide result oriented service.

1.9 Significance of Management Audit

Within the business there has grown wide spread delegation of authority and this has led to the need for audits and checks. As specialization grows the need for auditing automatically grows. It becomes absolutely imperative to know the effectiveness of performance in each delegated functional area of operation and the impact of breakdown in any area of specialized function or other areas of operation. With the growing size of each organization and geographical dispersion it is virtually impossible to all management authority at one place. Each branch may start taking a complete life of its own divorced from the policies of the management so checks and blames are needed which are provided by management audits. Due to their very nature management audits are able to provide objectives views and give the strategic level. The technical level managers also can express their option criticism and recommendations for improvement. So we can say that Management Audit provides a forum. At present with the growing liberalization and globalization of economy every business house is facing problems and challenges. Now the management faces these challenges which can prove to the central focus to the management audit and the starting point of action.
1.10 Working Procedure of Management Audit

Management Audit requires an interdisciplinary approach since it involves a review of all aspects of the management functions. It should be conducted by a team of experts because the variety of skills required cannot be mustered by any one individual. This team may consist of accountant, operations research specialist, industrial engineer, and social scientist. Each member of the team should have an analytical mind and an ability to look at a management function from the point of view of the organization as whole.

The members of the management audit team should have proper training. They should have an expert knowledge of the science of management. They should also be acquainted with salient features of various functional areas. Experience of actual work situations would be useful.

The conduct its work properly, the management audit team should have a clearly defined authority from the management. Management audit cannot be effective unless it is fully supported by the top management.

The process of conducting a review of the various activities in an organization, a management auditor can adapt and use a number of techniques of...
edificatory audit. However, a management auditor may not be concerned much with techniques likes recompiations, retracing book-keeping producers, external confirmation of balances, and comparison of records with supporting documents. This is because the objectives of a management audit are much different from the objectives of a verificatory audit. The management auditor primarily concerned with the appraisal of performances in the various areas of management. Hence, he does not look for evidence to support definite accounting figures. Instead, he attempts to evaluate the processes and functions of management. In doing so, he can use the following techniques effectively.

**Fig.1.2 Working Procedure of Management Audit**

![Diagram of Working Procedure of Management Audit]

*Source: Pratiyogita Darpan Commerce*

### 1.10.1 Inquiry
A management auditor may collect most of the evidence required by him by asking relevant question and obtaining pertinent answers to these questions. Proper framing the questionnaire is one of the first steps in conducting management audit. The main value of a questionnaire lies in the fact that a good question is often a key to uncover a hidden problem.

### 1.10.2 Examination
In many cases, the management auditor may have to conduct an examination of documents and records. This may be necessary in case his inquiries reveal certain information that needs corroboration or that suffers from internal contradictions.
1.10.3 Confirmation
A management auditor may also obtain written or oral statements from various persons in order to confirm the information obtain by him.

1.10.4 Observation of Pertinent Activities and Conditions
In many cases, the management auditor may have to rely upon his own observation of pertinent activities and conditions in the organization. A management auditor may prepare organizational charts and flow charts as a result of his observation of pertinent activities and conditions.

1.10.5 Correlation of Information
The information through the various techniques has to be correlated so that proper conclusions can be drawn. The management auditor has to compare the actual performances with the standards laid down or with the performances in the previous years. A good deal of skill is required in correlating the relevant information so as to reach meaningful conclusions.

1.11 Scope of Management Audit
Management audit is as examination review and appraisal of the various policies actions of the management. It is concerned with identification of the objectives of the organization and to see that they these are achieved. It is a method to evaluate efficiency of the management of the enterprise from the higher management level downward.

Sometimes government may invites teams of management auditors to conduct management auditors to management audit with a view to examining the efficiency of the management of a particular industrial unit, many sick textile units have been taken over by the government after detailed management audit. In case some public enterprises are not working properly and are enable to achieve the targets then the government may order management audit conducted of such enterprise in order to find out the reasons of inefficiency in its working. Foreign companies also get management audited of a business concerns before agreeing to participate as business partner. This will enable them to ascertain the financial soundness of the business concern.
The Scope of management audit can be widened to appraise in detail the systems and sub-systems, producers, job separation, authorization, work-quantity studies, accountability, quality of personnel, quality of information generation etc. Management audit is a measure of control designed to improve performance, eliminate inefficiency and increase effectiveness and profits of an organization.

The circumstances that have led to the development of management audit may be pointed out as follows:

- Granting financial assistance and subsidy by the government or financial institutions
- The size, scale and complexity of business operation
- Need to improve productivity and efficiency
- Need for periodical check-up
- Need for society to survive
- Take-over bids
- Foreign collaboration etc

For a better success, a management audit team needs an amicable rapport with the management, effective communication throughout the course of the audit process and a full disclosure of facts by the management.
1.12 Management Audit - Need of Hour

An auditor appointed in a company does not suggest ways and means to eliminate wastage or reduce the cost of production. A report on all these matters is also very important in the industrial world today. The need, therefore, for appointing consultants to advice on all these matters was felt by big industries. Now they appoint persons from fields of the different fields to maximize profit and make the optimum utilization of resources. These persons are known as management auditor or consultants; these persons are known as management functions and evaluate actual performance and compare with predetermined targets.

1.13 Appointment of Management Auditor

It is to be that the management audit is not prescribed by law and hence, a company is free to take its own decision in regard to the appointment and selection of Management Auditor. The Board of Directors or the Shareholders of a company can appoint a firm of practicing Chartered Accountants to undertake the management audit. Such a decision will, of course, depend upon the circumstances of a particular case.

It is argued that the internal auditor is fit enough to conduct management audit and he is familiar enough with the procedures and performances of the management. Further, it is also suggested that the work of management audit should be entrusted to the O & M (Organization and Methods Study) personnel who have analytical bent of mind in regard to the organizational structure and the methods of operations. Much will depend upon the circumstances of each particular case but a note should be made of the technical efficiency needed for conducting the management audit.

1.13.1 Qualities of Management Auditor

No specific qualities can be narrated for a management auditor but as his task is related to investigate and to appraise the objectives of a business in relation to the activities of the management, he must be capable enough to put all his professional skills in the task of evaluating and advising the Board members
on the various aspects of organizational operations. Some of the qualities of a Management Auditor can be given as under:

- He should have the ability to understand the purpose and problems of the organization.
- He should have a good understanding of the nature and objects of the organization and also of its area of operation.
- He should be competent enough to assess the progress of the organization.
- He should be well familiar with the principles of delegation of authority, management by objectives, management by exception, framing management planning and control and preparation of different types of statements, financial and others, and also of the budgets of different types.
- He should have a thorough knowledge of different internal control devices and modern techniques of job analysis.
- He should know the techniques and devices of making an effective and efficient use of modern office equipments including flowcharts, work schedules, use of computer etc.
- He should see that the plans as prepared by the management are suitable and practicable to achieve the objectives set forth by the management.
- He should be conversant with the nature of production activities in the organization.
- He should have the ability to access the adequacy and efficacy of controls in use in the organization.
- He should be well familiar with the personnel procedures and the personnel development programs so as to ensure whether or not proper allocation of duties has been made to the staff according to their qualifications, experience and aptitudes.
- He should be humble, pleasing and cooperated in nature.
- He should be conversant with different types of laws relevant with the functioning of a business concerns.
1.13.2 Functions of Management Auditor

The functions or duties of management auditor can be explained as:

• The management auditor helps the management in the preparation and execution of plans and policies. His job is not that of fault finding of the management but he should point out the weakness and defects with the sole objectives of making the management in more dynamic in future.

• He assists the management in taking the best decisions which are very vital for smooth running of a business. Wrong and faulty decisions amount to a great loss to the business and sometimes jeopardize the basis on which the business functions.

• He helps the top management in designing the authority and delegating the responsibilities to every core of the managerial cadre in the organization. The defects in the channels of communication can be removed and frictions avoided if the responsibility area is well define.

• The management auditor can assist in strengthening the business communication systems inside and outside the business. He can recommend and advise the most suitable system of flow of information internally and externally.

• He can recommend to the management the best measures and devices for evaluating the performance of the business. As a result, its operation can be improved and the profit maximized.

• He can help the management in the preparation of tax plans and budgetary policies. He appraises the rightness of different information and data and thus, helps the management in the preparing sales budget, purchase budget, cash and capital budget etc.

1.14 Management Auditor’s Report

After conducting management audit, the management auditors are required to prepare a report to be submitted to the management of the organization. On the basis of findings and definite information, the auditors prepare a report making recommendations for improvement in the functioning of the management. He should not hesitate in criticizing the management. His
recommendations should be constructive and adequate for the improvement of the overall efficiency of the management. Nevertheless the report must be clear and unambiguous, either making the point at efficiency is such that no change is advocated, or if organization is considered and advisable, then the management auditor must be sufficiently confident of his own ability to have assessed the situation he can make adequate proposals which will lead to improvement and increased profitability.

### 1.15 Indian Banking Industry

Banking in India in the modern sense originated in the last decades of the 18th century. The first banks were Bank of Hindustan (1770-1829) and The General Bank of India, established 1786 and since defunct.

The largest bank, and the oldest still in existence, is the State Bank of India, which originated in the Bank of Calcutta in June 1806, which almost immediately became the Bank of Bengal. This was one of the three presidency banks, the other two being the Bank of Bombay and the Bank of Madras, all three of which were established under charters from the British East India Company. The three banks merged in 1921 to form the Imperial Bank of India, which, upon India’s independence, became the State Bank of India in 1955. For many years the presidency banks acted as quasi-central banks, as did their successors, until the Reserve Bank of India was established in 1935.

In 1969 the Indian government nationalized all the major banks that it did not already own and these have remained under government ownership. They are run under a structure know as 'profit-making public sector undertaking' (PSU) and are allowed to compete and operate as commercial banks. The Indian banking sector is made up of four types of banks, as well as the PSUs and the state banks; they have been joined since 1990s by new private commercial banks and a number of foreign banks.

Banking in India was generally fairly mature in terms of supply, product range and reach-even though reach in rural India and to the poor still remains a challenge. The government has developed initiatives to address this through
the State bank of India expanding its branch network and through
the National Bank for Agriculture and Rural Development with things
like microfinance.

1.15.1 Nationalization of Indian Banks

Despite the provisions, control and regulations of Reserve Bank of India,
banks in India except the State Bank of India or SBI, continued to be owned
and operated by private persons. By the 1960s, the Indian banking industry
had become an important tool to facilitate the development of the Indian
economy. At the same time, it had emerged as a large employer, and a debate
had ensued about the nationalization of the banking industry. Indira Gandhi,
the then Prime Minister of India, expressed the intention of the Government
of India in the annual conference of the All India Congress Meeting in a paper
entitled "Stray thoughts on Bank Nationalization." The meeting received the
paper with enthusiasm.

Thereafter, her move was swift and sudden. The Government of India issued
an ordinance ('Banking Companies (Acquisition and Transfer of
Undertakings) Ordinance, 1969') and nationalized the 14 largest commercial
banks with effect from the midnight of 19 July 1969. These banks contained
85 percent of bank deposits in the country. Jayaprakash Narayan, a national
leader of India, described the step as a "masterstroke of political
 sagacity." Within two weeks of the issue of the ordinance, the Parliament passed the Banking Companies (Acquisition and Transfer of
Undertaking) Bill, and it received the presidential approval on 9 August 1969.

A second dose of nationalization of 6 more commercial banks followed in
1980. The stated reason for the nationalization was to give the government
more control of credit delivery. With the second dose of nationalization, the
Government of India controlled around 91% of the banking business of India.

Later on, in the year 1993, the government merged New Bank of
India with Punjab National Bank. It was the only merger between nationalized
banks and resulted in the reduction of the number of nationalized banks from
20 to 19. After this, until the 1990s, the nationalized banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy.

1.15.2 Liberalization of Indian Banks

In the early 1990s, the then government embarked on a policy of liberalization, licensing a small number of private banks. These came to be known as *New Generation tech-savvy banks*, and included Global Trust Bank (the first of such new generation banks to be set up), which later amalgamated with Oriental Bank of Commerce, UTI Bank (since renamed Axis Bank), ICICI Bank and HDFC Bank. This move, along with the rapid growth in the economy of India, revitalized the banking sector in India, which has seen rapid growth with strong contribution from all the three sectors of banks, namely, government banks, private banks and foreign banks.

The next stage for the Indian banking has been set up with the proposed relaxation in the norms for Foreign Direct Investment, where all Foreign Investors in banks may be given voting rights which could exceed the present cap of 10%, at present it has gone up to 74% with some restrictions.

The new policy shook the Banking sector in India completely. Bankers, till this time, were used to the 4–6–4 method (Borrow at 4%; Lend at 6%; Go home at 4) of functioning. The new wave ushered in a modern outlook and tech-savvy methods of working for traditional banks. All this led to the retail boom in India. People not just demanded more from their banks but also received more.

1.15.3 Current Scenario Indian Banks

By 2010, banking in India was generally fairly mature in terms of supply, product range and reach—even though reach in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and
transparent balance sheets relative to other banks in comparable economies in its region. The Reserve Bank of India is an autonomous body, with minimal pressure from the government. The stated policy of the Bank on the Indian Rupee is to manage volatility but without any fixed exchange rate—and this has mostly been true.

With the growth in the Indian economy expected to be strong for quite some time—especially in its services sector—the demand for banking services, especially retail banking, mortgages and investment services are expected to be strong. One may also expect M&As, takeovers, and asset sales.

In March 2006, the Reserve Bank of India allowed Warburg Pincus to increase its stake in Kotak Mahindra Bank (a private sector bank) to 10%. This is the first time an investor has been allowed to hold more than 5% in a private sector bank since the RBI announced norms in 2005 that any stake exceeding 5% in the private sector banks would need to be vetted by them.

In recent years critics have charged that the non-government owned banks are too aggressive in their loan recovery efforts in connection with housing, vehicle and personal loans. There are press reports that the banks’ loan recovery efforts have driven defaulting borrowers to suicide.

1.15.4 Adoption of Banking Technology

The IT revolution had a great impact in the Indian banking system. The use of computers had led to introduction of online banking in India. The use of the modern innovation and computerization of the banking sector of India has increased many folds after the economic liberalization of 1991 as the country's banking sector has been exposed to the world's market. The Indian banks were finding it difficult to compete with the international banks in terms of the customer service without the use of the information technology and computers.
1.16 Company Profile of the PNB

Researcher has covers various aspects for company profile such as, Historical background, objects, business focus, capital structure, management, technology, business, etc.

1.16.1 Historical Background

PNB has continued to retain its leadership position amongst the nationalized banks. The bank enjoys strong fundamentals, large franchise value and good brand image. PNB offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. The large presence and vast resource base have helped the bank to build strong links with trade and industry. At the same time, the bank has been conscious of its social responsibilities by financing agriculture and allied activities and small-scale industries. The bank is committed to maintaining the highest standards of service and will be covering more offices under this quality movement titled 'Alliance with Quality'. Punjab National Bank established in 1895 at Lahore, undivided India, Punjab National Bank (PNB) has the distinction of being the first Indian bank to have been started solely with Indian capital. PNB's founders included several leaders of the Swadeshi movement like Dayal Singh Majithia, Lala Har Kishen Lal, Lala Lalchand, Kali Prosanna Roy, EC Jessawala, Prabhu Dayal, BakshiJaishi Ram, and Lala Dholan Dass. Lala Lajpat Rai was actively associated with the bank's management in its early years. It holds the distinction of being the first Indian bank to have been started solely with Indian capital. In 1969, it was nationalized by the Government of India along with 13 other banks. Punjab National Bank is a state-owned commercial bank located in New Delhi.

1.16.2 Objectives of the Bank

The objectives of the Company are in line with objectives laid down by RBI for the Primary Dealers:

- Strengthen the infrastructure in the government securities market in order to make it vibrant, liquid and broad based.
• Ensure the development of underwriting and market making capabilities for Government Securities.
• Improve secondary market trading system, which would contribute to price discovery, enhance liquidity and turnover and encourage voluntary holding of Government securities amongst a wider investor base.
• Become an effective conduit for conducting open market operations. Besides the above, the Company has been pioneer in retailing of Government Securities contributing to a deep and broad-based market. The Marketing Department specifically caters to select segments viz. Provident Funds, Trusts, Regional Rural Banks, Co-operative Banks, and Corporate & Individuals to create awareness and encourage healthy investment practices.

1.16.3 Business Focus
PNB Bank's mission is to be a "Banking for the unbanked". The objectives of the Company are in line with objectives laid down by RBI for the Primary Dealers, Strengthen the infrastructure in the government securities market in order to make it vibrant, liquid and broad based. Ensure the development of underwriting and market making capabilities for Government Securities. Improve secondary market trading system, which would contribute to price discovery, enhance liquidity and turnover and encourage voluntary holding of Government securities amongst a wider investor base. Become an effective conduit for conducting open market operations. Besides the above, the Company has been pioneer in retailing of Government Securities contributing to a deep and broad-based market. The Marketing Department specifically caters to select segments viz. Provident Funds, Trusts, Regional Rural Banks, Co-operative Banks, and Corporate & Individuals to create awareness and encourage healthy investment practices.

1.16.4 Capital Structure
Punjab National Bank has continuously strived for growth in business which at the end of June 2012 amounted to Rs.6, 79,823 crore. PNB is the largest nationalized Bank in the country in terms of Branch Network, Total Business,
Advances, Operating Profit and Low Cost CASA Deposits. The CASA deposits share to the Total Deposits of the Bank was at 35.6% as on June 2012. Bank achieved a Net Profit of `1246 crore during the Q1 FY’13. Bank also has a strong capital base with Capital Adequacy Ratio of 12.57% as on June’12 as per Basel II with Tier I and Tier II capital ratio at 9.33% and 3.24% respectively.

1.16.5 Organization Structure
Pursuit of strategy requires that organization structure is closely aligned with business goals. During the year, Bank took various measures aimed at improving organization structure to support effective execution of strategy. The Retail Banking Division was bifurcated into Retail Assets Division and Resource Mobilization Division. Further, the Retail Hubs were reorganized into Retail Asset Branches (RAB) to meet the requirements of the retail borrowers and ensure faster delivery of retail credit. Presently, 73 RABs are functioning successfully. Budgeting process was further strengthened by linking with system's growth in a particular area as well as available potential. To face the HR challenges in a proactive manner, routine administrative functions relating to human resource management were hived-off into a separate' Personnel Administration Division'.

1.16.6 Technology
The Bank has always been pioneer in implementation of technology in facilitating good services and suitable products to its customers. Bank has also opened specialized branches equipped with all the facilities to cater to the needs of all the segments of the society. The Bank is offering all the technology enabled services to its customers ranging from Mobile Banking, Call Centre, Internet Banking, on line booking of rail tickets, payment of utilities bills, booking of airline tickets to SMS alerts and Mobile Banking services to keep them updated about their financial transactions at all time. Towards developing a cost effective alternative channels of delivery, the Bank with more than 6050 ATMs has the largest ATM network amongst Nationalized Banks. ATM Network of the Bank provides other value added services such as Funds Transfer, Bill Payments and mobile registration for generation of SMS
alerts; Direct Tax Payment, request for stop payment of cheques, etc. are also provided to the cardholders. During 2008-09, the Bank achieved the landmark of becoming the largest Nationalized Bank to bring all branches/extension counters into Core Banking Solution (CBS). The strong franchise enjoyed by the Bank, combined with its technological capabilities provides the Bank competitive advantages.

1.16.7 Distribution Network

The Bank at present has an enviable network of Branches at the end of March’ 2011 rose to 5189. The Branch Network comprises 2047 Rural, 1154 Semi Urban, 1111 Urban and 877 Metropolitan branches. During the review period 210 domestic branches were opened. With 5189 branches, including 28 Extension Counters, the Bank has the largest network amongst the nationalized banks. As part of customer segmentation, Bank has opened specialized Branches that include 6 Micro Finance branches, 59 SME branches, 11 International Banking Branches, 17 Asset Recovery Management Branches, 13 Mid Corporate Branches, 11 Large Corporate Branches, 73 Retail Asset Branches, 11 Agriculture Finance Branches, 3 high-tech agriculture branches, 1 Capital Market Services Branch and 1 International Service Branch. Besides, 41 Back Offices, 2 Special Foreign Exchange Offices, 17 Special MICR Centers, 41 Service (Regional Clearing Centre) centers, 4 Financial Inclusion Service Centers, 3 Centralized Draft Payable Centers, 1 Central Clearing Service Centre and 1 Depository Back Office are established to reduce delivery time and improve response time. The idea of introducing “Premium Customer Lounge” at select branches is aimed at providing superior customer experience to our premium customers. The Premium Customer Lounges are a means of ensuring that our Premium customers are extended exclusive services without disrupting our services to other customers of the Bank. A dedicated Relationship Officer will attend to these HNI customers for providing personalized services and business development the moment they enter our branch. The Punjab National Bank (PNB) provides online services to its customers. PNB is a member of SWIFT and the terminals in Mumbai connects more than 150 branches of PNB. Through online
CHAPTER 1- Introduction and Research Methodology

banking, the customers of PNB can access the services of the bank 24 hours, 365 days from the comfort of their homes. Internet banking facilities of Punjab National Bank (PNB) are offered to both individual and corporate customers. Bank has its Corporate Office at New Delhi and supervises 67 Circle Offices under which the branches function. The delegation of powers is decentralized up to the branch level to facilitate quick decision making.

1.16.8 Management
Shri. K.R. Kamath has been appointed as the Chairman & Managing Director of the Bank with effect from 28th October 2009. He has been Dy. Chairman of Indian Banks Association. The Executive Director Sh. M. V. Tanksale World Bank and Government nominee on the Boards of many companies in the financial sector.

The Bank's Board of Directors is composed of eminent individuals with a wealth of experience in public policy, administration, industry and commercial banking. Senior executives representing PNB are also on the Board. Senior banking professionals with substantial experience in India and abroad head various businesses and functions and report to the Managing Director. Given the professional expertise of the management team and the overall focus on recruiting and retaining the best talent in the industry, the bank believes that its people are a significant competitive strength.

1.16.9 Subsidiaries and Joint Ventures
A Subsidiary of Punjab National Bank which was amongst the first ones to get the license for undertaking activities in the Government Security market, as a primary dealer in 1996. The company received ISO 9002 certification from British Standard Institution, making it as the first primary dealer in India to achieve this certification or its quality systems and procedures. This certificate has been granted to the company as a whole including its corporate and branch offices. The Bank has the following Joint Ventures:

- Principal PNB Asset Management Company Pvt. Ltd.
- Principal Trustee Company Pvt. Ltd.
CHAPTER 1- Introduction and Research Methodology

- Assets Care & Reconstruction Enterprise Ltd.
- India Factoring & Finance Solutions Pvt. Ltd.

1.16.10 Business

PNB offers a wide range of commercial and transactional banking services and treasury products to wholesale and retail customers. The bank has various business segments:

i. **Mutual Fund:** Bank is distributing and marketing Mutual Fund products of UTI AMC & Principal PNB AMC. During FY 2010-11, Bank earned brokerage to the tune of Rs.2.19 crore.

ii. **Gold Coin Business:** Under the Gold Coin Scheme, the Bank is presently selling gold coins of 2 gm, 5 gm, 8 gm, 10 gm & 20 gm through branches. During the year 2010-11, Bank sold 30,325 gold coins weighing 206 Kg as against 16,542 coins weighing 103 Kg during 2009-10. Bank’s earning from sale of Gold Coins during 2010-11 stood at Rs.2.25 crore as against Rs.1.38 crore earned during 2009-10.

iii. **Insurance Business:** Under tie-up with Oriental Insurance Company Ltd for non-life insurance, premium collection during FY 2010-11 amounted to Rs.72.30 crore from 3.06 lac policies and Bank earned revenue of Rs.6.43 crore. Similarly, under tie-up with LIC of India in respect of life-insurance business, the premium collections amounted to Rs.113.91 crore from 47,159 policies referred by the Bank which earned revenue of Rs.6.77 crore.

iv. **Depository Services:** Bank is having a client base of 63,280 demat accounts. The Bank earned an income of Rs. 95.17 lac in 2010-11 as against Rs. 91 lac in 2009-10 by providing depository services.
v. **On line trading facility:** Out of a client base of 15,931 online trading accounts, Bank’s earnings increased to Rs.55.76 lac in 2010-11 against Rs. 35.58 lac during last year.

vi. **Merchant Banking:** As a Category I Merchant Banker, the Bank handled 14 assignments as “Banker to the Issue” and 90 assignments of dividend payment/Interest payment etc. during the financial year 2010-11. The Bank is registered with SEBI as Self Certified Syndicate Bank (SCSB) and its select branches are offering the facility of submitting applications in public issue (IPO/FPO/Right issue) through the Application Supported by Blocked Account (ASBA) process. The Bank is offering this facility online too.

vii. **India factoring and Finance Solutions Pvt Ltd:** PNB has formed a Joint Venture with FIM Bank (Malta), a Non-Banking Finance Company (NBFC), for offering products of factoring, forfeiting and other trade finance solutions to Indian Corporate particularly from SME segment. PNB has invested Rs. 30 crore, accounting for 30% stake in the Joint Venture. The Joint Venture "India factoring and Finance Solutions Pvt Ltd" started its commercial operations w.e.f 12.01.2011 from Delhi, Mumbai & Chennai.

viii. **Cash Management Services & Pay Fee:** Cash Management Services or the CMS facility is offered to Corporates for efficient fund management. This product has been structured with flexible features for meeting the specific needs of the user-client. CMS facility is offered to educational institutions through ‘Pay Fee’. 54 customers have opted for CMS services, while more than 295 educational institutes have availed Pay Fee service.

ix. **Door step Banking:** Under the facility of Door Step Banking, cash is picked up from the premises of the customer. Door step banking is
currently being provided to about 400 customers and has helped in garnering Current Account business.

x. **DD Drawing Arrangement:** Bank has also entered into DD Drawing arrangements with several foreign Banks, under which, apart from the revenue income from commissions earned, the Bank also enjoys substantial float in current account.

xi. **Credit Card:** Credit Card was launched by the Bank in February 2009. Keeping in view the need of corporate clients, Bank launched Corporate Credit Card with Individual liability in November 2009. During the year, soft launch of Corporate Credit Card with Corporate Liability was made and currently over 78,000 Credit Cards have been issued.

xii. **Merchant Acquiring Business:** Bank has also entered into Merchant Acquiring Business which targets existing CA/CC customers, hotels, petrol pumps, educational institutions, corporate, etc. As on date over 2400 POS terminals have been installed and 8 Internet Payment Gateways have been integrated.

xiii. **Treasury:** The Bank’s investment portfolio rose to Rs 95,513 crore at the end of March’ 2011 from Rs 78,058 crore last year. During the period, income from Investments was Rs 5698 crore against Rs 4577 crore last year. The Bank had meticulously complied with statutory prescriptions relating to CRR and SLR, in compliance under section 19(2) of Banking Regulation Act 1949 and prudential norms prescribed by RBI relating to treasury operations.

1.16.10 Present Working Area

Today, bank has present working on its 5180 plus branch network to build deep, enduring relationships with its 60 million plus customers across all the segments. Bank’s network of 5050 ATMs along with alternate delivery channels account for more than 28% of transactions. New set of products and services like PNB Uphaar, PNB Suvidha, World Travel Card, etc were
introduced during the year. In addition to international presence in 9 countries, Bank acquired equity stake in Dana Bank of Kazakhstan and is in the process of setting up presence in Australia and Canada. Under the performance management system, employee performance was recognized and incentivized. Strengthened pool of management talent as part of succession planning exercise with Team 2020 initiatives. Punjab National Bank has also been the recipient of a number of prestigious awards. It has been adjusted as the 248th biggest bank across the globe according to a recent survey made by Bankers Almanac in London. The Economic Times has also listed the bank as 38th among the premier 500 companies and the 9th among the most trusted brands in India. The total asset value of the bank amounts to around US$60 billion. There is also a subsidiary of the PNB in the United Kingdom. The Punjab National Bank (PNB) provides online services to its customers. PNB is a member of SWIFT and the terminals in Mumbai connects more than 150 branches of PNB. Through online banking, the customers of PNB can access the services of the bank 24 hours, 365 days from the comfort of their homes. Internet banking facilities of Punjab National Bank (PNB) are offered to both individual and corporate customers.

1.16.11 Awards and Accolades Conferred
During the year, in recognition of its performance and initiatives, Bank received various awards, some of which are:

- Gold trophy of SCOPE Meritorious Award for Best Managed Bank, Financial Institution or Insurance Company by Standing Conference of Public Enterprises.
- Wind Power India 2011 Awards -Second Prize under the category of “Best Wind Power Project Financier” 2011 by World Institute of Sustainable Energy.
- Golden Peacock Award for Corporate Social Responsibility 2010 by Institute Of Directors (IOD).
- Golden Peacock National Training Award 2010 by IOD.
- Rolta Corporate Award 2010 by Dun and Bradstreet.
• 6th BML Munjal Award for Excellence in Learning & Knowledge Development-2010 by Hero Mindmine Institute.
• Best Corporate Social Responsibility practice Award 2011 for 2nd year in a row by Bombay Stock Exchange.
• Skoch Awards 2010 for “Computerization of RRBs”.
• Outlook Money Award 2010 for “Best Home and Education Loan Provider”.
• “Global HR Excellence Award 2010” for the outstanding Contribution to the cause of Education and “Asia Best Employer Brand Award” by World HRD Congress.
• “Award for Brand Excellence” under Banking & Financial Services by CMO Asia.
• “CSR Excellence Award 2010” by ASSOCHAM.

1.16.12 Future of Bank
Punjab National Bank as a world-class, cost effective and customer-friendly institution. They provide excellent professional services and improve its position as a leader in the field of financial and related services, to build and maintain a team of motivated and committed workforce with high work ethos, and to use latest technology aimed at customer satisfaction and act an effective catalyst for socio-economic development.

1.17 Company Profile of HDFC Bank
Researcher has covers various aspects for company profile such as, Historical background, objects, business focus, capital structure, management, technology, business, etc.

1.17.1 Historical Background
HDFC bank is India's premier housing finance company and enjoys an impeccable track record in India as well as in International markets. Since, its inception in 1977, the corporation has maintained a consistent and healthy growth in its operations to environment. The Housing Development Finance Corporation Ltd. was amongst the first to receive an ‘in principle’ approval
from the Reserve Bank of India (RBI) to set up a bank in the private sector, as part of the RBI’s liberalization of the Indian Banking Industry in 1994 remain the market leader in mortgages. Its outstanding loan portfolio covers well over a million dwelling units. HDFC has develop significant expertise in retail mortgage loans to different market segments and also has a large corporate client base for its housing related credit facilities with its experience in the financial markets, a strong market reputation, large shareholders base and unique consumers franchise, HDFC was ideally positioned to promote a bank in the India. The bank was incorporated in August 1994 in the name of HDFC Bank Ltd. with its registered office in Mumbai, India HDFC Bank commenced operation as a Schedule Commercial Bank in January 1995.

1.17.2 Objectives of the Bank

The bank committed following objectives:

- To enhance residential housing stock in the country through the provision of housing finance in a systematic and professional manner.
- To promote home ownership.
- To increase the flow of resources to the housing sector by integrating the housing finance sector with the overall domestic financial markets.

1.17.3 Business Focus

HDFC Bank's mission is to be a World-Class Indian Bank. The objective is to build sound customer franchises across distinct businesses so as to be the preferred provider of banking services for target retail and wholesale customer segments, and to achieve healthy growth in profitability, consistent with the bank's risk appetite. The bank is committed to maintain the highest level of ethical standards, professional integrity, corporate governance and regulatory compliance. HDFC Bank's business philosophy is based on four core values - Operational Excellence, Customer Focus, Product Leadership and People.

1.17.4 Capital Structure

As on 31st March, 2012 the authorized share capital of the Bank is Rs. 550 crore. The paid-up capital as on the said date is Rs. 469, 33, 76,540 (234, 66,
88,270 equity shares of Rs. 2/- each). The HDFC Group holds 23.15% of the Bank's equity and about 17.29 % of the equity is held by the ADS / GDR Depositories (in respect of the bank's American Depository Shares (ADS) and Global Depository Receipts (GDR) Issues). 30.68 % of the equity is held by Foreign Institutional Investors (FIIs) and the Bank has 4, 47,924 shareholders. The shares are listed on the Bombay Stock Exchange Limited and the National Stock Exchange of India Limited. The Bank's American Depository Shares (ADS) are listed on the New York Stock Exchange (NYSE) under the symbol 'HDB' and the Bank's Global Depository Receipts (GDRs) are listed on Luxembourg Stock Exchange under ISIN No US40415F2002.

### 1.17.5 Organization Structure

HDFC is a professionally managed organization with a board of directors consisting of eminent persons, professionals who represent various fields including finance, taxation, construction and urban policy & development. The board primarily focuses on strategy formulation, policy and control, designed to deliver increasing value to stakeholders.

### 1.17.6 Amalgamation

On May 23, 2008, the amalgamation of Centurion Bank of Punjab with HDFC Bank was formally approved by Reserve Bank of India to complete the statutory and regulatory approval process. As per the scheme of amalgamation, shareholders of CBoP received 1 share of HDFC Bank for every 29 shares of CBoP. The merged entity will have a strong deposit base of around Rs. 1, 22,000 crore and net advances of around Rs. 89,000 crore. The balance sheet size of the combined entity would be over Rs. 1, 63,000 crore. The amalgamation added significant value to HDFC Bank in terms of increased branch network, geographic reach, and customer base, and a bigger pool of skilled manpower. In a milestone transaction in the Indian banking industry, Times Bank Limited (another new private sector bank promoted by Bennett, Coleman & Co. / Times Group) was merged with HDFC Bank Ltd., effective February 26, 2000. This was the first merger of two private banks in the New Generation Private Sector Banks. As per the scheme of amalgamation
approved by the shareholders of both banks and the Reserve Bank of India, shareholders of Times Bank received 1 share of HDFC Bank for every 5.75 shares of Times Bank.

1.17.7 Technology

HDFC Bank operates in a highly automated environment in terms of information technology and communication systems. All the bank’s branches have online connectivity, which enables the bank to offer speedy funds transfer facilities to its customers. Multi-branch access is also provided to retail customers through the branch network and Automated Teller Machines (ATMs). The Bank has made substantial efforts and investments in acquiring the best technology available internationally, to build the infrastructure for a world class bank. The Bank's business is supported by scalable and robust systems which ensure that our clients always get the finest services we offer. The Bank has prioritized its engagement in technology and the internet as one of its key goals and has already made significant progress in web-enabling its core businesses. In each of its businesses, the Bank has succeeded in leveraging its market position, expertise and technology to create a competitive advantage and build market share.

1.17.8 Distribution Network

The Bank at present has an enviable network of 2,544 branches spread in 1,399 cities across India. All branches are linked on an online real-time basis. Customers in over 500 locations are also serviced through Telephone Banking. The Bank’s expansion plans take into account the need to have a presence in all major industrial and commercial centers where its corporate customers are located as well as the need to build a strong retail customer base for both deposits and loan products. Being a clearing/settlement bank to various leading stock exchanges, the Bank has branches in the centers where the NSE/BSE has a strong and active member base. The Bank also has 10,079 networked ATMs across these cities. Moreover, HDFC Bank's ATM network can be accessed by all domestic and international Visa/MasterCard, Visa
Electron/Maestro, Plus/Cirrus and American Express Credit/Charge cardholders.

1.17.9 Management
Mr. C.M. Vasudev has been appointed as the Chairman of the Bank with effect from 6th July 2010. Mr. Vasudev has been a Director of the Bank since October 2006. A retired IAS officer, Mr. Vasudev has had an illustrious career in the civil services and has held several key positions in India and overseas, including Finance Secretary, Government of India. The Executive Director of World Bank & Government nominee on the Board of many companies in the financial sectors. The Managing Director, Mr. Aditya Puri, has been a professional banker for over 25 years and before joining HDFC Bank in 1994 was heading Citibank's operations in Malaysia.

The Bank's Board of Directors is composed of eminent individuals with a wealth of experience in public policy, administration, industry and commercial banking. Senior executives representing HDFC are also on the Board. Senior banking professionals with substantial experience in India and abroad head various businesses and functions and report to the Managing Director. Given the professional expertise of the management team and the overall focus on recruiting and retaining the best talent in the industry, the bank believes that its people are a significant competitive strength.

1.17.10 Business
HDFC Bank offers a wide range of commercial and transactional banking services and treasury products to wholesale and retail customers. The bank has three key business segments:

Wholesale Banking Services:
Bank's target market ranges from large, blue-chip manufacturing companies in the Indian corporate to small & mid-sized Corporates and agri-based businesses. For these customers, the Bank provides a wide range of commercial and transactional banking services, including working capital finance, trade services, transactional services, cash management, etc. The
bank is also a leading provider of structured solutions, which combine cash management services with vendor and distributor finance for facilitating superior supply chain management for its corporate customers. Based on its superior product delivery / service levels and strong customer orientation, the Bank has made significant inroads into the banking consortia of a number of leading Indian Corporates including multinationals, companies from the domestic business houses and prime public sector companies. It is recognized as a leading provider of cash management and transactional banking solutions to corporate customers, mutual funds, stock exchange members and banks.

**Retail Banking Services:**
The objective of the Retail Bank is to provide its target market customers a full range of financial products and banking services, giving the customer a one-stop window for all his/her banking requirements. The products are backed by world-class service and delivered to customers through the growing branch network, as well as through alternative delivery channels like ATMs, Phone Banking, Net Banking and Mobile Banking. The HDFC Bank Preferred program for high net worth individuals, the HDFC Bank Plus and the Investment Advisory Services programs have been designed keeping in mind needs of customers who seek distinct financial solutions, information and advice on various investment avenues. The Bank also has a wide array of retail loan products including Auto Loans, Loans against marketable securities, Personal Loans and Loans for Two-wheelers. It is also a leading provider of Depository Participant (DP) services for retail customers, providing customers the facility to hold their investments in electronic form. HDFC Bank was the first bank in India to launch an International Debit Card in association with VISA (VISA Electron) and issues the Master card Maestro debit card as well. The Bank launched its credit card business in late 2001. By March 2010, the bank had a total card base (debit and credit cards) of over 14 million. The Bank is also one of the leading players in the “merchant acquiring” business with over 90,000 Point-of-sale (POS) terminals for debit / credit cards acceptance at merchant establishments. The Bank is well positioned as a
leader in various net based B2C opportunities including a wide range of internet banking services for Fixed Deposits, Loans, Bill Payments, etc.

**Treasury:**
Within this business, the bank has three main product areas - Foreign Exchange and Derivatives, Local Currency Money Market & Debt Securities, and Equities. With the liberalization of the financial markets in India, Corporates need more sophisticated risk management information, advice and product structures. These and fine pricing on various treasury products are provided through the bank's Treasury team. To comply with statutory reserve requirements, the bank is required to hold 25% of its deposits in government securities. The Treasury business is responsible for managing the returns and market risk on this investment portfolio.

**1.17.11 Credit Rating**
The Bank has its deposit programs rated by two rating agencies - Credit Analysis & Research Limited (CARE) and Fitch Ratings India Private Limited. The Bank's Fixed Deposit programme has been rated 'CARE AAA (FD)' [Triple A] by CARE, which represents instruments considered to be "of the best quality, carrying negligible investment risk". CARE has also rated the bank's Certificate of Deposit (CD) programme "PR 1+" which represents "superior capacity for repayment of short term promissory obligations". Fitch Ratings India Pvt. Ltd. (100% subsidiary of Fitch Inc.) has assigned the "AAA (ind)" rating to the Bank's deposit programme, with the outlook on the rating as "stable". This rating indicates "highest credit quality" where "protection factors are very high" The Bank also has its long term unsecured, subordinated (Tier II) Bonds rated by CARE and Fitch Ratings India Private Limited and its Tier I perpetual Bonds and Upper Tier II Bonds rated by CARE and CRISIL Ltd. CARE has assigned the rating of "CARE AAA" for the subordinated Tier II Bonds while Fitch Ratings India Pvt. Ltd. has assigned the rating "AAA (ind)" with the outlook on the rating as "stable". CARE has also assigned "CARE AAA [Triple A]" for the Banks Perpetual bond and Upper Tier II bond issues. CRISIL has assigned the rating "AAA / Stable" for the
Bank's Perpetual Debt programme and Upper Tier II Bond issue. In each of the cases referred to above, the ratings awarded were the highest assigned by the rating agency for those instruments.

1.17.12 Corporate Governance Rating
The bank was one of the first four companies, which subjected itself to a Corporate Governance and Value Creation (GVC) rating by the rating agency, The Credit Rating Information Services of India Limited (CRISIL). The rating provides an independent assessment of an entity's current performance and an expectation on its "balanced value creation and corporate governance practices" in future. The bank was assigned a 'CRISIL GVC Level 1' rating in January 2007 which indicates that the bank's capability with respect to wealth creation for all its stakeholders while adopting sound corporate governance practices is the highest.

1.17.13 Present Working Field
Today, HDFC is recognized as one of the Best Managed Companies in India and is a model housing finance company for developing countries with nascent housing finance markets. HDFC has undertaken several consultancy assignments in various countries across Asia, Africa and East Europe to support and establish their housing finance institutions.

HDFC has assisted more than 38 Lakhs customers to own a home of their own, through cumulative housing loan approvals of over Rs. 3.73 trillion and disbursements of over Rs. 3.02 trillion as at March 31, 2011. HDFC has a wide network of 294 offices (which includes 76 offices of HDFC's wholly owned distribution company HDFC Sales Private Limited) catering to over 2,400 towns & cities spread across the country. It also has offices in Dubai, London and Singapore and service associates in the Middle East region, to provide housing loans and property advisory services to Non-Resident Indians (NRIs) and Persons of Indian Origin (PIOs). HDFC also has a robust deposits mobilization programme. HDFC has been able to mobilize deposits from over 10 lac depositors. Outstanding deposits grew from Rs. 1,458 crores in March
1994 to Rs 24,625 crores in March 2011. In addition, HDFC has received 'AAA' rating for its Deposit products for highest safety from both CRISIL and ICRA for sixteen consecutive years.

Over the years, HDFC has emerged as a financial conglomerate with its presence in the entire gamut of financial services including banking, insurance (life and non-life), asset management, real estate venture capital and more recently education loans.

1.17.14 Awards and Accolades Conferred

As in the past years, awards and recognition were conferred on your Bank by leading domestic and international organizations during the fiscal year ended March 31, 2011. Some of them are:

- Asian Banker 2011, Strongest Bank in the Asia Pacific region.
- Bloomberg UTV’s Financial Leadership Awards 2011.
- Outlook Money 2010 Awards.
- Business world Best Bank Awards 2010, Best Bank (Large).

1.17.15 Future of Bank

HDFC has always been market-oriented and dynamic with respect to resource mobilizations as well as its lending programme. This renders it more than capable to meet the new challenges that have emerged. Over the years, HDFC has developed a vast client base of borrowers, depositors, shareholders and agents, and it hopes to capitalize on this loyal and satisfied client base for future growth. Internal systems have been developed to be robust and agile, to take into account changes in the volatile external environment.

HDFC has developed a network of institutions through partnerships with some of the best institutions in the world, for providing specialized financial services. Each institution is being fine-tuned for a specific market, while offering the entire HDFC customer base the highest standards of quality in product design, facilities and service.
1.18 Need of the study

The management audit is a more recent concept. It focuses on results, evaluating the effectiveness and suitability of controls by challenging underlying rules, procedures and methods. Management audits, which are generally performed internally, are compliance audits plus cause-and-effect analysis. When performed correctly, they are potentially the most useful of the evaluation methods, because they result in change.

- The researcher has gone through different literature related to management auditing in India and found out that there are some shortcomings in management auditing system. The present study provides some suggestions for improvement of management auditing system in India.

The researcher measured the performance of employees of two types of organization-

- Where management auditing system is being followed.
- Where management auditing system is not being followed.

So, it was found that the performance in first case is comparatively better than that of second. So, the need arise to measure the degree of responsiveness in employee’s performance due to management auditing system.

It was needed to find out the authenticity of management auditing system. So, the present study tried to answer the above stated statement. Therefore, the present problem entitled, “A Comparative Study Of Management Audit System Between Punjab National Bank And HDFC Bank Ltd. in India” has been chosen for research.
1.19 Objectives of the Study
The objectives of the study always decide a proper and definite track to carry out the desired research activities. From such a point of view, to make the present study more scientific, following objectives have been laid down

1. To analyze the nature and present status of Management Audit System in selected banks.
2. To study the comparison of Management Audit System in selected banks.
3. To examine the correlation between Management Audit System and Employee’s Productivity of the selected banks.
4. To examine the correlation between Management Audit System and Profitability of the selected banks.
5. To suggest the action plan to make Management Audit more effective and useful in India.

1.20 Research Design and Research Methodology

1.20.1 Research Hypotheses
In order to have scientific profile of MAS in selected banks the researcher has tested the validity of the following null hypotheses:

H$_{01}$: In reference to MAS both the banks are independent to each other.
H$_{02}$: In reference to Internal Control both the banks are independent to each other.
H$_{03}$: In reference to Credit audit & Review both the banks are independent to each other.
H$_{04}$: In reference to Cash Management Services both the banks are independent to each other.
H$_{05}$: In reference to Risk Management both the banks are independent to each other.
H$_{06}$: In reference to Information Technology both the banks are independent to each other.


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**H₀₇:** In reference to Management Information System both the banks are independent to each other.

**H₀₈:** In reference to Non-performing Assets both the banks are independent to each other.

**H₀₉:** In reference to Citizen’s Charter both the banks are independent to each other.

**H₀₁₀:** In reference to Right to Information Act both the banks are independent to each other.

**H₀₁₁:** In reference to Customer care Center both the banks are independent to each other.

**H₀₁₂:** The MAS and Employee’s productivity are independent to each other.

**H₀₁₃:** The MAS and Profitability are independent to each other.

**H₀₁₄:** The responses of PNB and responses of HDFC Bank are equal.

### 1.20.2 Sample Design

**Sample Area:** Agra Region

**Sample Size:**

<table>
<thead>
<tr>
<th>S. N.</th>
<th>Sample Profile PNB</th>
<th>Sample Profile HDFC Bank</th>
</tr>
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<tbody>
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<td>Designation</td>
<td>Sample Size</td>
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<td>3.</td>
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<td></td>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
</tr>
</tbody>
</table>

**Source:** Primary survey
1.20.3 Justification of Sample Size

As far as respondents are considered the researcher has approached the Zonal Audit Office of PNB at Agra and Head Audit Office of HDFC Bank located at Ghaziabad. In PNB there are 65 employees in Zonal Audit Office out of which 15 employees are having desk jobs and rest engaged in field work. All the employees are of senior manager rank. They do audit every year and management auditor can be an external person or he/she can be an internal person as well.

1.20.4 Data Collection

Primary Source

For the collection of primary data, questionnaire was framed in order to collect the related information in a comprehensive manner. The same questionnaire was administered to 100 respondents.

Secondary Source

Secondary data has been collected from the following sources: Annual Reports of PNB and HDFC Bank published for selected years,

- Magazines:

- Research papers:
  Performance auditing and public sector management in Brunei Darussalam Vol. 21 Iss: 7, Management Audit – A pilot survey of views, A Case Study of Public Enterprise Management and Efficiency Audit in India Vol. 8 Iss: 6, Management Audit – Presentation Transcript Vol 10 Iss. 9.

- International journals:
• **Websites:**

• **Newspapers:**
  - The Economic Times, The Hindu, The Indian Express, The Times of India.

### 1.20.5 Duration of the study
For the purpose of analysis of data, a period of five financial years from the 2005-2006 and to 2009-2010 has been taken.

### 1.20.6 Sampling Technique:
For the purpose of the study convenient sampling technique has been used.

### 1.20.7 Statistical Techniques used
The following statistical tools for analysis and data presentation have been used: graphs, percentage calculation, frequency count, average, mean, standard deviation, Karl Pearson’s coefficient correlation, Spearman’s rank correlation coefficient, regression analysis, Coefficient of Determination, Fisher’s $z$-transformation, $t$-test and $z$-test application of test.
1.20. Research Methodology

In addition to the above stated generalized research methodology the following table shows the application of specific techniques by the researcher to achieve objectives individually –

<table>
<thead>
<tr>
<th>S. No.</th>
<th>OBJECTIVES</th>
<th>RESEARCH METHODOLOGY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>To analyze the nature and present status of Management Audit System in selected banks.</td>
<td>To achieve this objective researcher has explored secondary data collected.</td>
</tr>
<tr>
<td>2.</td>
<td>To study the comparison of Management Audit System in selected banks.</td>
<td>To achieve this objective the researcher has explored secondary data collected.</td>
</tr>
<tr>
<td>3.</td>
<td>To examine the correlation between Management Audit System and Employee’s Productivity of the selected banks.</td>
<td>To achieve this objective statistical tool Karl Pearson’s coefficient correlation and Fisher’s z-transformation test have been used.</td>
</tr>
<tr>
<td>4.</td>
<td>To examine the correlation between Management Audit System and Profitability of the selected banks.</td>
<td>To achieve this objective statistical tool Karl Pearson’s coefficient correlation and Fisher’s z-transformation test have been used.</td>
</tr>
<tr>
<td>5.</td>
<td>To suggest the action plan to make Management Audit more effective and useful in India.</td>
<td>To achieve this objective primary and secondary data have been explored.</td>
</tr>
</tbody>
</table>

1.21 Limitations of the Study

As one knows, limitations are found everywhere in every walk of life. All accomplishments in life, big or small take place with some hurdles or obstacles. Considering this universal thought, the researcher, in spite of putting the best effort could not escape from certain limitations, which can be summarized as follows:

The study is confined to PNB and HDFC Bank and includes only top two leading organizations in their respective segment.
CHAPTER 1- Introduction and Research Methodology

- The sample was drawn from Agra region only, assuming that rest of banks following the same trends of MAS.
- The study is confined to banking sector only.
- The time period of the study was limited to five years and two organizations.
- While collecting secondary data, it was difficult for the researcher to obtain some of the data due to some confidential or unknown reasons.
- Responses collected from the respondents through questionnaire may be biased.
- Though the researcher has incorporated significant parameters of management audit, yet a few more parameters and organizations could also be accommodated.

REFERENCES

9. Management Audit http://www.referenceforbusiness.com/encyclopedia/K or-Man/Management-Audit.html#ixzz1ZyL6ojpX.
12. Pratiyogita Darpan, Commerce-page no. 175,271.