CHAPTER - I

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Economic development has been widely accepted by economists as a major goal of national policy, both in the industrialised countries and in countries that are developing. "There is indeed, no single index which is a perfect measure of economic growth; in order to see whether an economy is growing properly, we need to look at far more things than can possibly be expressed in a single figure". In a conventional sense, economic growth has been defined as progress in per capital income measured in currency units of constant power. Economic development is a continuous process wherein individuals in groups or in a community along with the state strive hard to raise their productivity and production. Again, economic development calls for creating a suitable climate for steady or accelerated growth.


ROLE OF FINANCIAL INSTITUTIONS:

The readiness of financial institutions to adopt the objectives of development, economic and social, and to bring about greater mobility of resources to meet the emerging needs of the economy is a necessary concomitant of development. The success of economic development depends essentially on the extent of mobilisation of resources and investment and on the operational efficiency and economic discipline displayed by the various segments of the economy.

ROLE OF COMMERCIAL BANKS:

The importance of commercial banks in the process of economic development has been stressed from time to time by economic thinkers and progressive bankers in the country. Commercial banks play a very important role in

5. Ibid, p. 11.
the Indian economy. They are the heart of our financial structure, since they have the ability, in co-operation with the Reserve Bank of India, to add to the money supply of the nation and create additional purchasing power. Banks' lendings, investments and related activities facilitate the economic process of production, distribution and consumption.

From the economic point of view, the major task of banks and other financial institutions is to act as intermediaries channelling savings to investment and consumption. Through them, the investment requirements of savers are reconciled with the credit needs of investors and consumers. If this process of transfer is to be carried out efficiently, it is absolutely essential that the banks are involved. Indeed, in performing their tasks they realise important economies of scale. The savings placed at their disposal are employed in numerous and large transactions, adapted the specific needs of borrowers. "To achieve a high rate of economic growth sustained over a long period, greater efforts will have to be made to increase agricultural and industrial
production. For this purpose, bank credit will play a significant role.

The Indian Banking System today has evolved as a powerful instrument of planning for economic growth. The banking sector has witnessed an unprecedented level of growth as well as structural changes in view of the adoption of planned economy. Experience in the past four decades since Independence has highlighted the fact that growth and social justice are not contradictory but are complementary.

The nationalisation of the major commercial banks in India has brought in its wake a change in the overall banking structure and operations. With a wide expansion of branches, banking is now closer to the masses than ever before and the policies of the banks are increasingly oriented towards helping the weakest of the weaker sections of the society. The commercial banks, nowadays, have been entrusted with the role of acting as catalytic agents in the development process.

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Rapid transformation has taken place in the banking sector in India in the past two decades, due to nationalisation. The public sector banks, by and large, have achieved all the landmarks fixed by the Government of India and Reserve Bank of India, particularly to serve small customers, rural areas, to upgrade the lending techniques from security-oriented to purpose-oriented lending and to ensure order in rendering social justice. However, there has been a steady erosion of profitability in some of the public sector banks in the last two to three years.

RECENT TRENDS AND PRIVATE SECTOR BANKS (PSBs)

In India's mixed economy, there are three types of banks in operation viz., Public Sector Banks, Private Banks and Foreign Banks. In a developing economy like India with a vast banking potential, there is enough scope for PSBs to exist side by side with public sector banks and also to embark on diversification of their services.

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Despite the fact that PSBs bear the same responsibility in their discharge of statutory obligations as regards priority sector lending, Service Area Approach, etc., they are not placed on par with the public sector banks in the matters of obtaining deposits from Government companies and corporations, opening of new branches, etc. Inspite of various constraints, the performance of the PSBs are commendable. Thus, the position of PSBs in the Industry, though small, is conspicuous and consolidated.

The banking system in India as noted by the Chairman of the SBI has grown in an environment 'where it provides, what it wants to provide, where it wants and when it wants'. This is an apt summation of the supply-oriented approach. The SBI Chairman was equally apt when he said, "this approach must change" in favour of providing the bank customer 'what he wants, when he wants and where he wants'. The question is how the banks will bring about the required shift, quickly and meaningfully.

A host of new services is now expected of a bank with the expansion in the range of customers and their requirements. With the increase in income and standards of living of the people, many customers prefer a much wider range of personal financial services from their banks without the necessity of approaching different sources for it. The big overall question which now faces the banks is whether or to what extent they should attempt themselves to supply all these financial services preferably under one umbrella in competition with more specialised institutions.

In consonance with the above, banks in foreign countries have already started converting the banks into "Financial Boutiques". A financial boutique is primarily a bank equipped with a receptionist and adequate seating leasing space to companies offering insurance, investment, real estate and travel planning services. The same can be emulated by PSBs in India too for improving their profitability.

The major strengths of the PSBs are their compactness of size, predominantly regional coverage and good employee motivation. The PSBs generally make use of these strengths significantly and have developed a high customer and service-orientation in their operations, which is perceptibly lacking in the public sector banks. Of late, some of the PSBs are proving to be threats to the public sector banks in the business activities, mainly because of the better services provided and empathy with the customers' needs by the former than the latter.

There are clear signals available, as the off-shoot of the Narasimhan Committee recommendations, that there will be a significant change in the scenario of commercial banking operations in India. It is expected that a "level playing field" will be provided to all the banks regardless of their ownership, whether public, private or foreign. In this changing context, the PSBs may have to face new challenges from public banks and foreign banks.

The removal of certain handicaps faced by the PSBs now, such as discrimination by the authorities, lack of Government and corporate patronage, etc., would certainly give added advantage. But, these will not take them too far. Certain constraints under which the public sector banks functioning also are now sought to be removed under the new dispensation and if so, they will become more competitive and provide a tougher challenge to the PSBs even in the existing lines of business. Likewise, it is reported that the foreign banks would be given more freedom to operate and if so, their proven marketing prowess and the sophisticated services they provided to the customers would pose new types of challenges. To face these emerging challenges, the PSBs should concentrate in

a) intensifying the inherent strengths they possess, like service and customer orientation, employee motivation and regional concentration.
b) updating the technology, without further loss of time, for the provision of services to the customers, such as computerisation, electronic transfer of funds, etc – in view of the limited size of the PSBs this is easier for them to achieve than their big brothers in public sector and 
c) developing new product lines to suit the needs of the customers.

If the PSBs work on the above said lines, they would really provoke the public banks to improve their functioning, particularly in the qualitative areas. This is the significant role emerging for the PSBs in the changing scenario.

CHANGING FACETS OF BUDGETING:

Nowadays, there has been an ever-increasing trend towards extending budgeting by business enterprises to include planning, co-ordinating and controlling of their entire operations. According to heiser, "a budget is an

overall blueprint of a comprehensive plan of operations and actions expressed in financial terms; it includes plan for all segments of the business and provides a link between the physical and financial plans of various departments of a company". E.F.L. Brech also feels that a budget is a reflection of the management's intentions and therefore, involves complete integration of accounting and finance functions with management. Budgeting is a process for systematically relating use of funds to accomplishment of planned objectives. Every budgeting system integrates planning, management and control.

Performance budgeting is the outcome of the need to meet the manifold tasks which the traditional budgeting is now required to undertake, unlike in the past where the budget was used as an instrument for merely providing a ceiling for expenditure.


CONCEPT, MEANING AND OBJECTIVES:

Performance budgeting is a technique of presenting operations in terms of functions, programmes, activities and projects, through a budget that the relationship between inputs on the one hand and outputs on the other can be more clearly established. It directs attention to ends not means, as the significant element in financial planning and expenditure authorisation. A performance budgeting presents the purposes and objectives for which funds are required, that cost of the programmes proposed for achieving those objectives and quantitative data measuring the accomplishment and work performed under each programme. It shifts the emphasis from the means of accomplishment to the accomplishment itself.

The main objectives of performance budgeting are as follows:

a) Achieve a correlation between the physical and financial aspects of a programme;

b) Improve budget formulation and related decision-making and review the annual programmes at all levels of the organisation;

c) Facilitate better appreciation and review of the objectives;

d) Ensure performance audit more meaningful and effective;

e) Help the measurement and assessment of actual progress achieved towards attainment of the long-term objectives; and

f) Pave the way for a more efficient financial management.

FUNDAMENTAL ELEMENTS OF PERFORMANCE BUDGETING SYSTEM (PBS):

As an effective tool in the hands of management for financing planning and control, performance budgeting presupposes the gradual and evolutionary development of the following three basic elements:

a) Establishing a functional, programme and activity classification of organisational operations;

b) Bringing the system of accounting and financial management in conformity with this classification; and

c) Evolving suitable norms, yardsticks, work units of performance and unit costs wherever possible under each programme and activity to facilitate better estimates of financial requirement and latter appraisal and evaluation.
A programme budget may be defined as an appropriation of a fixed sum of money to achieve a specific objective or objectives. The necessity for the expenditure, however, is largely a matter of management judgement, as there are limited ways in which the adequacy or effectiveness of the expenditure can be measured. Jesse Burkhead states that a programme budget is useful for review and decision-making at and above the department level. It is adapted to the requirements of overall budgetary planning. In his view the programme budget serves a different purpose than a performance budget. Performance is based on past and on the record of prior accomplishment whereas 'programme' is essentially forward looking.

17. Jones, Reginald L., Trentin, George H., Budgeting: Key to Planning and Control, D.B. Taraporevala Sons & Co. Pvt., Ltd., Bombay, 1971, p. 120.
Performance budgeting is an all-inclusive concept embodying programme formulation as well as measurement of performance work in the accomplishment of programme objectives. The concept of Planning, Programming and Budgeting System (PPBS) has two important components—a programme budget and system analysis. The purpose of the system is to provide for more and better information for decision-making and allocation of resources.

**PERFORMANCE BUDGETING V. CONVENTIONAL BUDGETING:**

A conventional budget represents a statement of various amount provided for expenditures to be incurred by the executives in carrying out its responsibilities. The conventional budget is "a list of appropriations", which gives complete details about the amount provided for various items. A cost centre was expected to incur the

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expenses within the limits, so control over expenditure is in negative manner. Due to control over amount of expenditures executives think that it is the easiest to have minimum activity. But, this type of thinking cannot have the best surveillance over its effective working.

There is a need for effective control over business activities through any positive manner. A performance budget is a plan of action. Performance budget is associated with a budget classification that it based on 22 the functional type of classification. It is an idea in which emphasis should be on the result expected to be achieved by the cost centre.

STATEMENT OF THE PROBLEM:

Since finance plays a vital and paramount role in the entire process of planning, commercial banks have to assist in the national planning efforts through

substantial mobilisation and canalisation of resources to suit the plan objectives and priorities. Consequently, efficiency and effectiveness are a sine qua non for the success of this sector. The effectiveness of an organisation depends upon the adoption of modern management tools, techniques and systems. Viewed thus, management planning and control systems are the prima donnas for orienting commercial banking to the demands of the planning. The adoption of well-conceived, well-designed and well-implemented management technique viz., Performance Budgeting has, thus, become imperative in the banking sector for

a) guiding the performance of the banks both at the branch and regional levels; and

b) evaluating the performance and enabling them to achieve the organisational objectives.

As a result, the nationalised banks and PSBs have gradually embarked upon a systematic performance budgeting exercise in the recent years.
In considering the emerging and important role of PSBs, the present study is undertaken, wherein an attempt is made to analyse and evaluate the Performance Budgeting System followed in five select PSBs in Tamil Nadu, viz., The Lakshmi Vilas Bank Ltd., The Karur Vysya Bank Ltd., Bank of Madura Ltd., City Union Bank Ltd., and Tamilnad Mercantile Bank Ltd.

REVIEW OF LITERATURE:

1. "Performance Planning for the Regions and Branches of a Bank", by A. Chary was based on a research study at National Institute of Bank Management (NIBM) in 1975. The important aspects that are given due consideration in the study are

a) the process of performance planning;

b) the elements of performance planning in setting up of the performance goals; and

c) the role of the central office and regional office in developing the performance plan for the bank.

Though preliminary in nature, it made a dent in the understanding of the mechanism in introducing the performance budgeting system in commercial banks as such.

2. "Performance Budgeting for commercial Banks in India", by S. Singh, an early valuable work, portrays the structure and process of performance budgeting to be followed in commercial banks.

3. "Report of Performance Budgeting in Public Sector Banks" by National Institute of Bank Management (NIBM), Bombay, 1977, was the first real research study. Based on a survey conducted by a team of 10 faculty members of the NIBM in 1977, this study surveyed the performance budgeting system that existed in public sector banks and made useful recommendations for making it effective. However, it concentrated primarily on the performance budget formulation and finalisation process, and mostly did not go into the


details of performance monitoring and the review process. Also it enquired the system in the then 14 nationalised banks and hence completely excluded the PSBs from its purview.

4. "Management Planning and Control Systems in Commercial Banks" by Mohinder N. Kaura, a commendable work, described the structure and process of performance budgeting system apart from the processes involved in the long-range planning and control systems and operational planning and control systems. It made appropriate recommendations for making management planning and control system more effective. Though it included, apart from the public sector banks, PSBs that have been nationalised during the time of study, it, in general, excluded the appraisal of performance budgeting system as followed by PSBs.

Unlike these four studies, the focus of the present study is not confined to the description of structure and process of the performance budgeting technique alone but also covered the evaluation of the system too. In view of the emerging role of PSBs at present, the study embraces five select PSBs in Tamilnadu. It also examines the problems or impediments in the implementation of the system and makes appropriate suggestions for making the system more effective.

OBJECTIVES OF THE STUDY:

The following are the objectives of the study:

1. To study the structure and process of Performance Budgeting System as followed in PSBs in Tamilnadu.
2. To find out whether the system is meeting the basic objectives for which it was introduced.
3. To analyse the strength and weaknesses of the system in the process of implementation.
4. To suggest, based on findings, improvements needed for making the system more effective.
**METHODOLOGY:**

At present the number of banks operating in private sector in India is 24. Out of which, 5 banks are selected for the present study. Thus, the sample size is 5 banks which roughly accounts for 23% of the population. While selecting the sample of individual branches, convenient and random sampling methods have been employed.

The data collected for the study are both primary and secondary in nature. The primary data were collected by using the Questionnaire. The questionnaire was framed with utmost care keeping in mind the objectives of the study. Two types of questionnaires were framed viz., Top Management Level (See Appendix-1.1) and Branch Level (See Appendix - 1.2). The Top Management Level questionnaires were distributed to the top officials of the select 5 PSBs.

Approximately ten percent of branches functioning in Tamil nadu, each from select 5 PSBs, were selected and the
Branch Level questionnaires were distributed to the respective Branch Managers.

Besides the use of the questionnaire, the researcher has also personally contacted the respondents to get the reliable data — both qualitative and quantitative, needed for the study.

The secondary data were collected from the official records of such banks. They were collected with a view to evaluate the working results of PSBs which followed Performance Budgeting systems in their financial system.

Details regarding the process involved in the Performance Budgeting system are collected through discussions with the officers of the select banks covering the formulation side as well as the implementation side.

Simple statistical tools like averages and percentages are used for analysing the data so compiled.
SCOPE AND COVERAGE:

This study contemplates to evaluate the operational efficiency of Performance Budgeting System (PBS) followed in the 5 select PSBs out of 24 in India. As the banks selected are within Tamilnadu, the study helps to appraise the working results of PSBs in the application of Performance Budgeting System, as one of the management techniques and finally offers suggestions for improving the effectiveness of the PBS.

PERIOD OF THE STUDY:

The period of the study covers 6 years starting from 1985 to 1990-91, since PBS has been introduced in PSBs very late.

LIMITATIONS OF THE STUDY:

1. The sample size represents only 23% of the total PSBs functioning in India and having their head quarters in Tamilnadu.

2. The study covers a period of only 6 years starting from 1985 to 1990-91.
3. The study uses both primary and secondary data. Thus, the limitations extended to the latter are applicable to the present study also.

4. The study focusses on PSBs selected from Tamilnadu. Thus, the findings of the study may not be applicable to other States, in view of the wide range of differences prevailing in social custom, culture and attitudes of the people.

CHAPTERISATION:

The study is analysed and presented in the following six chapters including the present Introductory Chapter.

The Introductory Chapter deals with the role of commercial banks, recent trends and PSBs, changing facets of budgeting, concept, meaning and objectives, fundamental elements of PBS, statement of the problem, objectives of the present study, review of literature, methodology and analytical tools employed, scope and coverage, period of the study and limitations.
Chapter II, portrays the scenario of PSBs in India in general and in Tamilnadu in particular.

In Chapter III, the technique of Performance Budgeting System followed in PSBs are elaborately discussed.

Chapter IV deals with the evaluation of Performance Budgeting System as followed by PSBs, especially in Tamilnadu and the problems faced in the implementation process.

In the Concluding Chapter, the summary of findings, conclusions and recommendations emerging from the present study are highlighted.

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