CHAPTER - II

SURVEY OF ALLIED RESEARCHES
2.1. BANKING SYSTEM : ITS IMPORTANCE


The concept of banking in India could be traced back even in the Vedic times when giving and taking of credit existed in one form or other. Manu, the great Hindu jurist, devoted a special section to the subject of deposits and pledges and laid down rules which governed the policy of loans and rates of interest. Reference to the same was also found in Kautilya’s Arthashastra (Tannan, 1995; Bedi & Hardikar, 1979).

During the Mughal era, indigenous bankers in the form of family or individual played an important role in lending money, financing trade and commerce through hundis or bills of exchange or even the profitable business of money-changing. The indigenous bankers were known differently in different parts of the country as shroffs, seths, sahukars, mahajans or chettis. (Datt & Sundharam, 1995; Bedi & Hardikar, 1979).

For the history of modern banking in India a reference may be made to the roles of the Calcutta agency houses which undertook banking operations for the benefit of their constituents in addition to trading activities. Such combination proved fatal resulting in failure of agency houses during 1829 - 1832 owing to the adoption of reckless speculation and a policy of profit maximisation without sustainable securities. Realising the need for efficient banks in the country East India Company established three banks namely, The Bank of Bengal in 1809, The Bank of Bombay in 1840 and The Bank of Madras in 1843. These independent institutions, known as Presidency Banks, were amalgamated into the Imperial Bank of India in 1921. On the other hand, in the wake of Swadeshi movement a good number of banks with Indian management were established between 1895 and
Suggestions from time to time that India should have a central bank did not take shape until the Reserve Bank of India Act, 1934 was passed and the Reserve Bank of India came into existence in April, 1935 as central banking authority of India (Bedi & Hardikar, 1979; Tannan, 1995) to control the banking system in the country (Datt & Sundharam, 1995).

The banking system that India inherited at independence was wholly inadequate to meet the purpose of mobilising and channelising funds in the desired directions (Ghosh, 1979). There had been a series of bank failures during 1913-17, 1939-45 and 1948-53 as a result of wrong management policies, specifically, unhealthy competition, indiscriminate lending, advancing against undesirable securities, combining banking with trade etc. Partition of the country had accelerated the banking crisis during 1948-53 (Bedi & Hardikar, 1989; Datt & Sundharam, 1995).

Under this backdrop an welcoming change came with the passing of State Bank of India Act, 1955 whereby the undertaking of the Imperial Bank of India was taken over by the newly constituted State Bank of India, functioning as a commercial bank having largest number of branches all over the country (Tannan, 1995; Chhipa, 1897. 7). By 1959, addition of eight more banks in the earstwhile princely states had further widened the operational control of State Bank of India and extended its area of functioning (Raj, 1978; Bedi & Hardikar, 1989; Tannan, 1995).

However, other commercial banks operating in India during the time were not following a rational credit policy and consequently could not keep pace with the needs of planned
economic development of the country. There were complaints that the banks were controlled by few industrialists and business magnates who used the banks to fund their empires; and that the sectors demanding priority such as agriculture, small scale industries, exports were continuously and consistently ignored (Tannan, 1995; Datt & Sundharam, 1995; Narasimham, 1991; Tandon, 1975; Rajagopal, 1994).

In order to negate these shortcomings social control measures during early 1969 over the banks came into force with an assurance to ensure its services to weaker section of the community hitherto neglected (Tannan, 1995; Bedi & Hardikar, 1979; Chhipa, 1987; Ghosh, 1979). The social control measures were not considered adequate for achieving the desired objectives. On 19th July, 1969 fourteen major commercial banks were nationalised, and it has been considered as a 'revolution' in the Indian Banking System (Tannan, 1995; Bedi & Hardikar, 1989; Raj, 1978; Chippa, 1987; Deb, 1988; Ghosh, 1979).

The nationalisation primarily aimed at increasing the role of banks as catalytic agents for the economic development of the country, spreading the banking habit to the semi-urban and rural areas, aligning the credit policies with national development programmes as well as making available the credit facilities to the neglected section of population of the country (Raj, 1978; Tannan, 1995). On 15th April, 1980 six more commercial banks were nationalised further extending the area of Government control over the banking system of the country (Tannan, 1995; Chhipa, 1987).
2.1.2. Commercial Banks in India: Definition, Function and Organisational set-up.

The Banking Regulation Act, 1949 is the principal statute governing the banks functioning in India. The provisions of the Act extend more or less to various types of banks operating in India. (ICAI, 1994; Bedi & Hardikar, 1979; Tannan, 1995).

"Banking" has been defined under section 5(b) of the Act as the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise. As per Section 5(c) a "Banking Company" means any company which transacts the business of banking in India. In addition to the banking business, a banking company is permitted under section 6 of the Act to be engaged in certain forms of business which are incidental to the business of banking (ICAI, 1994; Tannan, 1995; Bedi & Hardikar, 1979).

The major institutions presently carrying on banking business in India include (a) Nationalised banks (b) State Bank of India and its subsidiaries (c) Banking companies (d) Foreign banks having branches in India (e) Regional rural banks and (f) Co-operative banks (ICAI, 1994). Banks are classified into scheduled and non-scheduled under the Reserve Bank of India Act, 1934 on the basis of control that could be exercised by the Reserve Bank of India (Datt & Sundharam, 1975; Deb, 1988). All commercial banks both Indian and foreign, regional rural banks and state co-operative banks are scheduled banks. At present there are only three non-scheduled banks in the country (Datt & Sundharam, 1995).

Some of the main functions being carried on by the banks are (a) Receiving of money on deposit (b) Lending of money (c)
Dealing in securities (d) Transferring money from one place to another (e) Issuing letter of credit (f) Issuing guarantees (g) Safe custody of valuables (h) Dealing in foreign exchange (i) Rendering merchant banking services (j) Acting as executors and trustees (ICAI, 1994; Tannan, 1995; Bedi & Hardikar, 1979). Dominant part of the total banking business in India is transacted by the nationalised banks and State Bank of India and its subsidiaries (ICAI, 1994; Tannan, 1995; Basu Dipankar, 1995).

Organisational set up of a banking institution is headed by the Board of Directors, the apex body. Policies pertaining to all important issues and business activities are attended by the Board which ensures that the directives issued by the Reserve Bank of India are duly implemented. The Central Government in consultation with the Reserve Bank of India made a scheme called 'The Nationalised Banks (Management and Miscellaneous) Provision Scheme, 1970 for the constitution of Board of Directors in case of nationalised banks. Regarding the banking companies in the private sector, the directors are appointed under its respective memorandum and articles of association subject to the provisions under Banking Regulation Act, 1949 (Bedi & Hardikar, 1979).

Next in the organisation hierarchy is the whole-time chairman who exercises his powers subject to the superintendence, control and direction of the Board of Directors. Approval of the Reserve Bank of India is required for the appointment of the chairman and of the whole-time managing director who is the chief executive officer of the bank. The same person may hold both the offices (Bedi & Hardikar, 1979).
The general manager is responsible for implementation of the policies laid down by the Board of Directors and chairman/managing director. The general manager is to ensure that the departmental heads and branch managers follow a prudent banking policy. The general manager is usually assisted by a team of deputy and assistant general managers. The zonal managers and regional managers are appointed in the zones/regions to ensure better supervision and for administrative convenience of all branches under their respective control. The branch managers are usually delegated powers to sanction loans and advances up to a certain limit depending upon the size of the branch (Bedi & Hardikar, 1979). While the head office of a bank functions mainly as an administrative and controlling office, the **actual banking operations are conducted by or through the branches** where branch managers play a crucial role (Bedi & Hardikar, 1979; Narasimham, 1991; Roy, 1993).

2.1.3. **Role of the Reserve Bank of India as central banking authority.**

The Reserve Bank of India was established in April, 1935 under the Reserve Bank of India Act, 1934. The Reserve Bank of India, originally owned by private shareholders, was nationalised in 1948. The general superintendence and direction of the affairs of the Reserve Bank of India are entrusted to the Central Board of Directors consisting of 20 members. The chief executive of the bank is known as the Governor (Tannan, 1995; Datt & Sundharam, 1995).

All the important functions of a central bank of a country have been entrusted to the Reserve Bank of India under the Reserve Bank of India Act, 1934 (Tannan, 1995; Datt & Sundharam, 1995).
Under section 22 of the Reserve Bank of India Act, 1934 the Bank has the sole right to issue bank notes of all denominations including the coins. This power enables the Reserve Bank of India to regulate and control money supply in the country. Another important function of Reserve Bank of India is to act as banker to the Union and State Governments. The Reserve Bank of India looks after the current financial transactions of the Government and manages its public debts. Reserve Bank of India has the obligation to transact the banking business of the Government. The bank receives and makes payments on behalf of the Government. It acts as adviser to the Government on all matters relating to money and bank. The Reserve Bank of India acts as a bankers' bank. All the scheduled banks are required to maintain certain cash reserves with the Reserve Bank of India. The scheduled banks can borrow from the Reserve Bank of India on the basis of eligible securities whenever necessary. At the time of crisis the Reserve Bank of India acts as a lender of the last resort to the commercial banks. The Reserve Bank of India has the power to exercise its control over the volume of credit created by the banks in India. It controls the Indian banking arena through the system of licencing, inspection and calling for information. Besides above, the Reserve Bank of India is responsible to maintain the official rate of exchange (Datt & Sundharam, 1995; Tannan, 1995). The Reserve Bank of India acts as the custodian of country's foreign exchange reserves. Further, it has the responsibility to administer the exchange control of India (Tannan, 1995; Datt & Sundharam, 1995).

The objective of monetary policy was characterised by the Reserve Bank of India as 'controlled expansion'. The monetary policy had dual aims (a) expansion of the economy and (b) control of
inflationary pressure through Bank Rate, Open Market Operations, Cash Reserve Requirement (CRR) and Statutory Liquidity Requirements (SLR) (Datt & Sundharam, 1995).

The Reserve Bank of India has been given wide powers of control over the bank management. In addition to the traditional central banking functions the bank discharges the functions of supervision of banks and promotion of banking system in India. The supervisory functions include licencing and establishments, branch expansion, management and methods of working, amalgamation, reconstruction and liquidation. Further, the Reserve Bank of India carries out periodical inspection of banks. Approval of the Reserve Bank of India is necessary for the appointment, re-appointment and termination of Chairman, Managing or whole-time director of public sector banks (Datt & Sundharam, 1995; Tannan, 1995). Nationalisation of banks imposed new responsibilities on the Reserve Bank of India for directing the banks towards the development of economy and for achieving the desired social objectives. The functions of the Reserve Bank of India contributed a great deal in improving the banking system of the country (Datt & Sundharam, 1995; Narasimham, 1991).

In addition, the Reserve Bank of India performs a variety of developmental and promotional functions relating to promotion of banking habit, extension of banking facilities and establishing new financial institutions to mobilise savings towards industrial and agricultural credit requirements (Tannan, 1995; Datt & Sundharam, 1995).

The weapons and the powers available to RBI are capable of controlling the organised banking sector and the inflation arising out of bank finance, and not the inflation due to other
factors like deficit financing or shortage of goods. Moreover, the Reserve Bank of India has no power over non-banking financial institutions and indigenous bankers who play a major role in financing trade and industry of the country (Datt & Sundharam, 1995).

In respect of autonomy of central bank, an evaluation of Reserve Bank of India could be made in the light of central banks abroad. The status of central bank in terms of their relationship with the Government varies from country to country. There are central banks which do not determine the monetary policies but the government does, like Bank of England, Bank of Japan and Bank of France. On the other hand, there are countries where central banks are independent of the government, like Federal Reserve System in the United States and the Bundesbank in Germany. The institutional independence of a central bank does not mean much if it is compelled to follow a prescribed rule. In Indian context, the situation is yet to come when Central Government would borrow from the market instead of depending on direct credit from Reserve Bank of India by issuing of adhoc treasury bills. With the coming of such a situation the onus of responsibility for the conduct of monetary policy will rest on the Reserve Bank alone. (Rangarajan, 1993).

The functioning of the Reserve Bank of India has not gone uncriticised. The Joint Parliamentary Committee, in its report submitted in December 1993, identified the non-observance of the prescribed rules and procedures as the main reasons for the irregularities on the part of the banks, brokers, public sector undertakings and supervisory authority (RBI (1995) Report on Trend & Progress of Banking in India 1993-94. 37; Tannan, 1995).
As recommended by the Narasimham Committee there has been change in the supervisory mechanism of the Reserve Bank of India with the constitution of the Board for Financial Supervision (BFS) in November 1994 under the aegis of the Reserve Bank of India (RBI Annual Report 1994-95; RBI (1995) Report on Trend and Progress of Banking in India 1993-94).

2.1.4. **Role of commercial banks towards economic development in India since nationalisation.**

The existence of a well-organised and efficient banking system is a pre-requisite for the economic development of a country. Banks play an important role in the organised money markets in any country. They act as a conduit for mobilising funds and channelising them in the desired directions (Raj, 1978; ICAI, 1994; Chhipa, 1987; Ghosh, 1979).

The central economic function of the financial sector is **financial intermediation** that is mobilisation and allocation of available financial resources (Rangarajan, 1994).

While evaluating the function of financial intermediaries Sundaram (1996) opined that:

"Acting as a middleman between savers and ultimate borrowers, a banker transforms the attributes of financial claims (such as their duration, denomination, divisibility etc.). He provides benefits through 1. Liquidity intermediation 2. Denomination (size) intermediation 3. Risk intermediation and 4. Maturity intermediation." (P-52).

The major objective of an economically developing country to meet its expanding and emerging needs to mobilise its resources, is to
build up a banking system, geographically wide and functionally diverse. Nationalisation of fourteen banks in July, 1969 was a major step towards this end. To achieve the objective significant changes were required in banking organisation, policies and practices (Narasimham, 1991; Raj, 1978).

Dutt & Sundharam (1995) portrayed the post-nationalisation banking scenario and thereby cited the views of Gopalkrishnan as follows.

"The single striking feature of post-nationalisation banking scene is the rapidity with which the branch network has multiplied itself. The rate of branch expansion has been unparalleled anywhere else in the world." (P-718).

Narasimham (1991) observed similarly. Within twenty-four years since nationalisation there was a massive increment of banking operation in urban, semi-urban and rural areas in terms of opening new branches. (Datt & Sundharam, 1995; Tannan, 1995; Bedi & Hardikar, 1979; Chhipa, 1987; Raj, 1987; Narasimham, 1991). This has appreciably brought down the disparities in state-wise distribution of banking offices. (Narasimham, 1991; Tannan, 1995; Chhipa, 1987; Raj, 1978; RBI (1995) Report on Trend & Progress of Banking in India, 1993-94).

Planned economic development, deficit financing and increase in currency issue in one hand and massive branch expansion, favourable business conditions, reasonable interest rate etc on the other led to tremendous deposit growth. Bank deposits increased by around forty five times in 1992-93 over 1970-71 and by about 144% in 1994-95 compared to 1992-93. (Bedi & Hardikar, 1979; Tannan, 1995; Chhipa, 1987; Datt & Sundharam, 1995; Narasimham, 1991; Raj, 1978; RBI Annual Report, 1994-95).

The concept of banking, in recent years has radically changed from traditional banking to developmental banking (Tannan, 1995:134). The lending pattern of the banks have since shifted from short term to medium term and also long term loan as well as from traditional financing of selected industries and traders to the growing needs of agriculture and industries under priority sector. The most significant aspect of awareness and involvement in development efforts of commercial banks since nationalisation is the formation of 'lead bank scheme' under which all the districts of the country are allotted to some bank or other. Since February, 1988 a new programme called 'service area approach' has been introduced by commercial banks. The scheme envisages that each rural and semi-urban branch of a commercial bank be assigned, for the economic growth, of a specific area comprising a cluster of villages under its operation (Datt & Sundharam, 1995; Tannan, 1995).

During the pre-nationalisation period, commercial banks remained indifferent to the credit needs of agricultural sector. Banks being owned and controlled by big industrialists, by and large ignored the credit requirements of small industrial concerns, business units and others under the priority sector. Since nationalisation, the banks were directed to finance these priority sector units so long starved of bank credit (Datt & Sundharam, 1995; Tannan, 1995; Narasimham, 1991:12). In addition,
retail traders, professional and self-employed persons, education, housing loan for weaker section, commodity loans etc were also brought under the gammut of commercial bank credit. In 1980, Reserve Bank of India issued directives to the commercial banks that priority sector lending should constitute 40% of aggregate bank credit. As a result, rate of priority sector lending to total bank credit increased from 12% in 1960 to 25% in 1971 to 36% in 1993 to 36.6% in 1994-95 (Datt & Sundharam, 1995; RBI Annual Report, 1994-95. 52).

Other remarkable achievement of bank nationalisation is 'poverty alleviation under social banking. The Government of India introduced a number of schemes to help the weaker section of the community. Differential Interest Rates (DIR) scheme has shown marked success whereunder the loans are given by public sector banks at a concessional rate of 4% to the weaker sections. Integrated Rural Development Programme (IRDP) scheme has been successfully implemented to rectify imbalances in rural economy. Other important schemes introduced under social banking include Self Employment Scheme for Educated Unemployed Youth (SEEUY), Self Employed Programme for Urban Poor (SEPUP), scheme of Credit to Minority Community (Datt & Sundharam, 1995; Tannan, 1995).

Nationalisation has not only brought greater geographical spread and functional reach to the commercial banks but contributed heavily for diversification of its activities in the fields of (a) opening merchant banking division for underwriting new issues, entering into deferred payment agreements between Indian industrialists and foreign companies, equipment leasing, etc. (b) floating mutual funds (c) lending house building loan refinanced by National Housing Bank (d) launching venture capital fund and
(e) taking up factoring which is a relatively new concept whereby book debts are quickly realised by sale of bills to a financial intermediary called the 'factor'. In addition, introduction of 'stockinvest' scheme, setting up of Asset Management Companies and Money Market Mutual Funds are the areas the banks have diversified (Datt & Sundharam, 1995).

The diversification of Indian financial system has been reflected in a shift in asset preference from monetary assets to other financial assets and thereby increases the non-banking activities of the banks with the introduction of a number of schemes like para banking activities, mutual funds, stockinvest scheme, credit card business and equity participation (RBI Report on Trend & Progress of Banking in India, 1993-94).

That the banks' role towards economic development of India is increasing over the years would be apparent from the fact that the contribution of banking and insurance averaged 3.7% of real G D P during the eighties, increased to 6% during the nineties (RBI Annual Report, 1994-95).

Tannan (1995) quoted Ghose (1987) as:

"... the post-nationalisation period witnessed a complete reorientation of Indian Banking from 'class' banking to 'mass' banking, from 'asset-base' lending to 'production oriented' lending and from 'elite' banking to 'social' banking. There has, in fact, been a change in the very concept, percept and outlook of banking". (P-134)

Ghosh (1979) while commenting on the role of banks in fostering economic development has expressed his views as follows as saying
"In considering the role of banking in fostering economic development, we cannot fall back upon any specific model of inter-relationship between banking and economic development which can be considered appropriate for all countries or for all stages of development process. Studies of economic historians also do not point any definite conclusion." (P.7-8).

On the other hand, Rangarajan (1994) while evaluating the microeconomic dimensions of the Indian financial system on the basis of several indicators of financial development concluded that:

"the relationship between financial development and overall economic growth is reflected in the finance ratio, defined as the ratio of total financial issues in a year to national income. In India, the finance ratio, which was less than 1 per cent during 1951-52 and around 17 per cent in early 1970s, rose steadily to reach as much as 41.3 per cent in 1991-92." (P-748).

While reviewing the performance indicators of the Indian economy during 1996-97 Rangarajan (1997) observed that the economy has done well in several areas and observed that:

"The trend over the last three years has brought about a significant shift in the perception relating to the long-term growth prospects of the economy." P.881.

2.1.5. Evaluation of Indian Banking System since nationalisation.

Appraisal of Indian banking system requires the critical review of the banking scenario in the country and abroad in terms of the
global experience apart from the foreign banks operating in India.

2.1.5.1. Indian Banking in India.

While the Indian banking system has made spectacular progress since nationalisation in achieving geographical coverage and functional spread, it has in the process **suffered seriously in the form of decline in productivity and efficiency which has resulted erosion in profitability** (Narasimham, 1991; Tannan, 1995; Datt & Sundharam, 1995). **Quality of the loan portfolio has deteriorated seriously** (Narasimham, 1991; Datt & Sundharam, 1995). A number of public sector banks and financial institutions have become financially weak; some of them have been incurring losses over the years. The service to the customers, technological obsolescence and decline in profitability have reached such a level that functioning of public sector banks has been questioned. This can be evinced from the critical review of Raj (1978).

This has far reaching consequences in bringing economic stability because ineffective functioning of the banking sector impede the economic growth of the country as a whole (Bank for International Settlements, 63rd Annual Report, 1st April 1992 - 31st March 1993, Basle, 14th June 1993, P-173).

According to Narasimham (1991) several factors both external and internal to the organisation are responsible for erosion of profitability. He has outlined some of the major reasons behind the fall-out, detailed below.

a) **Profitability suffered because** of declining income on the one hand and increasing expenditure on the other. **Income declined**
because of relatively lower rate of interest, earned on large amount of deposits being impounded in CRR and SLR as well as on loans to priority sector at concessional rate under the process of social banking. Only around thirty per cent of the total deposits of the banks are available for lending in the open market at prevailing commercial rate of interest. Further, large amount of loans to agriculture and industry, the banks were forced to make, have become either overdue or doubtful of recovery. While the income is reducing, cost of operation is rising owing to uneconomic branch expansion, overmanning and lower productivity. Two major causes, responsible for the emergence of above problems are both directed investments and credit programmes.

b] The directed investments by way of Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) account for a pre-emption of more than half of the resources mobilised by the banking system. The commercial banks in India are required under section 24 of the Banking Regulation Act, 1949 to maintain liquid assets in the form of Government securities and Government guaranteed securities, in terms of at least 25 per cent of its total demand and time deposit liabilities, known as SLR - a prudential safeguard. Such SLR has been enhanced to 38.5 per cent which is far more than the minimum stipulation. Again, under the Reserve Bank Act, 1934, all the commercial banks are required to maintain a minimum cash reserve with the Reserve Bank of India, known as CRR. The rate varies from three to fifteen per cent. The present rate of CRR is 15% on the average. Therefore, more than fifty three per cent happens to be the directed investments earning lower degree of income to the banks.
c) The directed credit programme has fulfilled its objectives of social banking by lending to priority sectors including export and food procurement. The achievements have been made at the cost of deterioration of loans and advances portfolio, resulting in long overdues and declined profitability because of concessional lending rate and subsidy on lending.

d) Further, it has been observed that (a) loan portfolio quality has deteriorated because of political and administrative interference, (b) central office supervision has weakened, (c) quality of manpower has diluted, (d) the ratio of capital funds to risk weighted assets is low, and (e) trade union resistences encompassing mechanisation, computerisation, interference to the policies of promotion, staff transfer etc., have affected discipline, work-culture and in the process overall efficiency and productivity.


Kearney (1994), observed that:

"...... In spite of growing governmental and international organisational pressure, banks and securities firms can not create funds for political and social goals. This is not their role. ...... the banks in particular are ill-equipped to operate in the arena of social change." (P-153).

Ghosh (1979) opined similarly. According to him:

"...an appraisal of the role of the banking system in economic development cannot be divorced from the socio-political framework in which the economy functions. ......... While the
banking system functions as the agent on behalf of the government for the planned distribution of credit, it is also responsible, at the same time, for the efficient use of public resources." (P-3).

Serious weaknesses of Indian banking system, exposed by the 'securities scam,' leading to siphon out of huge funds from the banks during 1992-93, include (a) weakness in the supervisory mechanism (b) weakness in the internal control mechanism, and (c) the extent of strain faced by the banks, operating in an over-regulated system (Datt & Sundharam, 1995; RBI Report on Trend and Progress of Banking in India, 1992-93).

The Joint Parliamentary Committee identified the main reasons of these irregularities as non-observance of the prescribed rules and procedures by the banks (RBI: Trend and Progress of Banking in India 1993-94).

Operational flexibility, autonomy in decision making process and greater degree of professionalism of the banking system in India are considered essential to enhance efficiency, productivity and profitability (Datt & Sundharam, 1995; Narasimham, 1991; Joshi, 1994).

In order to minimise the weaknesses of Indian banking system, banking sector reforms were initiated in 1991-92 which in its turn were considered to be the integral part of the on-going process of economic reforms, aimed at improving the productivity and efficiency of the economy as a whole (Datt & Sundharam, 1995; Rangarajan, 1994). This has been highlighted by Narasimham, 1991 who observed that:
"the deterioration in the financial health of the system has reached a point where unless remedial measures are taken soon, it could further erode the real value of and return on the savings entrusted to them and even have an adverse impact on depositor and investor confidence." (Page-iv).

Reforms, thus, have operationally been defined by the International Monetary Fund as being

"..... included rationalizing prices and interest rates, as well as restructuring financial institutions, enhancing their autonomy and strengthening their supervision." (P-25).

In order to assess the degree of financial sector reforms, Rangarajan (1994) considered that the extent of achievements in respect of (a) removing or relaxing the external constraints, (b) the introduction of prudential norms and (c) institutional strengthening were the viable areas of measurements.

In the process of banking sector reforms, measures taken so far and progress made upto 1994-95 thereon include (a) reduction in SLR, CRR, and Interest rate slab, (b) abolition of Incremental Cash Reserve Ratio (ICRR), (c) introduction of prudential norms for income recognition, asset classification and provisioning for bad and doubtful debts, (d) extension of capital adequacy norms to cover all scheduled commercial banks including foreign banks operating in India, (e) permission for conditional opening and closure of branches by scheduled commercial banks, (g) liberalisation of lending norms, (f) setting up of new private sector banks, (g) constitution of board for financial supervision, (h) setting up of special recovery tribunals, (i) share capital contribution by the central government to the nationalised banks during 1994-95 amounting to Rs. 5287 crores, (j) raising by the

**Major areas of public sector banks' performance during 1994-95 also included** the followings: (a) the banks continued to face the challenges of financial sector reforms; positive trends started in 1993-94 strengthened during 1994-95 in the banking system; (b) balance sheets reflected the actual health as a result of adherence to prudential norms. As a group, public sector banks posted a net profit during 1994-95 compared to huge loss last year. Non-performing assets came down to around 20% by 31st March 1995; (c) growth rate in both deposits and credit during 1994-95 were very much satisfactory; (d) the banks completed the backlog in provision for bad and doubtful debts upto 1994-95 under the revised prudential norms. (Shankarnayanan, 1995; RBI Annual Report 1994-95).

Narasimham (1996) while evaluating the effects of the on-going reforms in the banking system observed that the banks are now operating with greater functional autonomy, operational flexibility and professional credit decision-making.

However, in the context of financial reforms Indian banking system still continues to carry a few weaknesses mentioned below: (a) priority sector advances by both public and private sector banks remained lower than targets, (b) intra-regional disparity continues in respect of branch expansion, (c) asset reconstruction fund proposal by Narasimham committee has not been implemented, (d) the board for supervision, though constituted is different from what the committee envisaged, (e) very little development in
depoliticisation of the chief executives and directors of banks which according to Narasimham Committee was essential for non interference in micro credit decision making and internal administration, (f) inter branch reconciliation is still pending and occurrence of frauds in banks is continuing (RBI Annual Report 1994-95; R B I Report on Trend & Progress of Banking in India, 1993-94; Shetty, 1993).

Thus, Shetty (1993) observed rightly that banking system still needs the removal of some major operative constraints. Accordingly he opined that:

"...although the Government of India and RBI have taken some measures ... the banks need support from them to operate with flexibility, autonomy and freedom. A number of operative constraints is still to be removed to enable banks to achieve desired results." (P-12).

A similar note of caution by the International Monetary Fund "... If reforms were implemented too gradually, 'adjustment fatigue' might set in before the benefits of reform could take hold." (P-25)

Attuned with above, The World Bank (1992) while elaborating the policies guiding financial sector operations remarked:

"Sound, well-performing financial intermediaries are essential to financial-sector efficiency and to the successful introduction of policy reforms. ... Where an intermediary's weaknesses are attributable to external policies and conditions, Bank support will be conditioned on appropriate measures to correct them." P.63.
Reddy (1997) while reviewing the first phase of reform process remarked that "reforms are a continuous process, though it is possible to identify distinct phases in the reform process....the first phase has yielded impressive achievements". P.897.

2.1.5.2. Indian Banking Abroad.

Kearney (1994) observed that:

"the forces for change in the banking and financial industries are globalisation, deregulation, technological change and innovation." (P-151).

Indian banking is not far behind which can be evinced from the Country-wise distribution of Indian banks operating abroad. United Kingdom has the largest number of Indian banks' branches followed by Fiji Islands and United States. Bank-wise break-up shows that Bank of Baroda has the maximum number followed by State Bank of India and Bank of India. (RBI : Report on Trend and progress of Banks in India, 1993-94).

Indian banks operating abroad need thorough restructuring for their meaningful presence in foreign centres. The need for restructuring is reflected in the writing of Lichbeur (1994):

"..... In a period of full recession in the financial sector, foreign banks are certainly suffering most in each country. They were the last to arrive in local markets, they have higher operating cost and a poorer knowledge of the economic environment than local banks. Banks which in the past have been the most enterprising in terms of international expansion are today suffering more than the others and are
Attuned with him Madhukar (1995) also projected a dismal picture of Indian banking abroad:

"...the overseas banking operations of Indian banks continued to be lacklustre. In fact during the middle of 1980s some of the banks had to close their offices in London/UK." (P-223).

Apart from these the emphasis on restructuring can be substantiated from the analysis of a few salient features below which in other way portray the declining performance of Indian banks operating abroad: (a) low capital base with innate operational limitation, (b) dependence on inter-bank loans abroad availability of which is linked with the socio-political and/or socio-economic crisis in India, (c) failures of sovereign countries resulting in non-performing sovereign debts, (d) dependence on ethnic Indian business, (e) despite long presence in prime financial centres abroad they failed to create any image due to inherent weakness in policy formulation. They remain contended with traditional banking and could not come out with the dynamic changing scenario of world banking. (Wagle, 1994).

Market potentials, created by the ongoing economic reforms in India, should be exploited by the foreign branches of Indian banks. Priority should be given for building image in the eyes of the local people, which is possible by (a) generating a clientele of high credit standing (b) participating with other banks in lending to ethnic clients requiring large credit facilities, (c) resorting to niche banking, (d) upgrading skills relating to performance, (e) expanding branches to countries having fast economic growth like China, South Africa, Mauritius, Thailand, Korea etc., (f) examining the viability of existing branches vis-
a- vis their restructuring, (g) resorting to advanced and up-to-date support system. ( Wagle, 1994 ). The restructuring with a professional back-up is now the operational orientation of Indian banking abroad. This endeavour has been rightly assessed by Middleton (1994) according to him:

"...an international banking arena into which Indian bankers now envisage making their entrance after several decades of virtual isolation during which they have operated - broadly speaking - primarily as key agents for national government objectives in domestic, economic and social policy." (P-9).

2.1.5.3. Foreign Banking in India.

The working results of 141 branches of 24 foreign banks operating in India as on June, 1993 with aggregate loss of Rs 842 crores in 1992-93 against aggregated profit of Rs 320 crores in 1991-92, did not differ much from those of the public sector banks of India. It was further observed that the branches of foreign banks in India made accelerated progress as regards to their share of deposits and outstanding credit in total deposits and outstanding credit of all scheduled commercial banks in India (RBI :Report on Trend and Progress of banks in India, 1992-93).

The number of branches of foreign banks operating in India rose to 147 as on June 1994. Capital adequacy norms of 8% were made applicable also to the foreign banks operating in India. During 1993-94 such banks in India made comparatively better results than the Indian public sector banks as regards to profitability. While their total income increased by only 1.9% over 1992-93, total expenditure decreased considerably by 27.6% over the previous year. Both their operating profit and net profit
increased considerably (RBI : Report on Trend and Progress of Banks in India, 1993-94. 29 & 38).

2.1.5.4. The Global Experience.

There has been an widespread deterioration in the performance of the banks worldwide. Late eighties witnessed deterioration in the profitability, asset quality and credit standing of banks in most industrial countries. The profitability of major banks in 1992 compared to 1991 revealed losses, owing to a combination of several factors, continued in Norway, Sweden and Finland. Profit margins declined moderately in Japan, Germany, Canada, Denmark, Netherlands, Spain and steeply in France and Australia. In the United Kingdom results were uneven. In the United States, by contrast, the banking industry reported record earnings (Bank for International Settlements, 1993).

The international financial sector, from micro-economic point of view, further revealed a number of challenges being faced by it to accommodate 'the worldwide move towards globalisation', giving rise to a 'new dimension for the credit institutions' and a 'new state of balance for the public finance sector'. There is again the challenges of multi-cultural banks. The American banks with their mono-culture cannot be considered a model for future solution. In addition, the banking sector has to adopt a future course of non-banking activities. (Lichtbuer, 1994).

American banks experienced a four-year decline in income and profit before fully adjusted while British banks are still facing the crisis. The same is true for banks in Japan which are appeared to be saddled with immense bad debts that might cost a major part of its profits. The CIS and Eastern European banks have also been struggling hard. The Scandinavian banks are facing acute
crisis over mounting losses and non-performing assets. Banks in the Far East follow the same trend. Liberalisation, deregulation and evolution of prudential norms are three major contributory factors for this unprecedented crisis in banking industry. (Shetty, 1993).

Study of reforms by Yoon (1995) in financial sector and consequences thereof in some South East Asian countries revealed the followings: (a) reform in Korea was implemented gradually by privatising the nationwide commercial banks; (b) commercial banks in Malaysia were permitted to determine interest rate both on lending and deposits save a few special categories of borrowers; (c) a universal model of banking after German was reintroduced in Philippines; (d) reforms in Indonesia were implemented in two stages by eliminating ceilings on credit and deregulation of interest rates in one hand and through functional measures on the other; (e) elimination of restriction on interest rate was emphasised in financial reforms in Sri Lanka. The consequences, inter alia, of the financial sector reforms in the aforesaid countries were as follows:

a) The impact of deregulation on interest rate was in the desired direction in all the five countries, so assessed;
b) The outcome of the reform was beneficial by way of faster growth of the financial sector compared to pre-reform period barring Sri Lanka where financial system exhibited no perceptible growth, but at the same time the declining trend was arrested.
c) Following reforms, the competitiveness of the banking system increased in all the five countries.
d) However, availability of term credit was not uniform in all the five countries after the reform.
e) Nothing definite could be inferred regarding the influence of liberalisation on intermediation cost.

f) Banking sector of all the five countries were burdened with non-performing assets of varying degree. The manner the problem was solved also differed country-wise.

g) The impact of deregulation on interest rate affected the countries at different levels because of difference in the leverage of the corporate structure.

Financial sector reforms in various developing countries in Asia and Latin America were introduced as concomitant to economic sector reforms. In some countries financial system was strengthened by financial sector reforms while others faced initial setbacks. (Rangarajan, 1994).

Adjusting with the reforms procedure by the banks, is a very difficult task. The experience is same with the banks all over the world, be it in America or Europe in eighties or in Japan during early nineties. All banks, irrespective of size, spread and location, had to face the challenges of transition; and the banks in India are no exception to this rule. (Shetty, 1993).

In Thailand, it was reported, the banks are not properly managed professionally; by ignoring international lending practices the banks have built up portfolios of risky debts over the years. Irregular lending practices 'combined with lax regulation and protectionist policies led to present economic crisis. (The Asian Age, 1997, Dec. 27).

The banks in Pakistan, like any other banks in Asia, have been suffering from huge bad loans, which in turn have been weakening
the banking system of the country in spite of the government's allout endeavour to further the recovery process. The public sector banks and government sponsored financial institutions are struggling with bad loans of $ 3 billion. (IBA, 1997).

In Pakistan, one of the leading banks was reported to have non-performing advances to the tune of '40-50 percent' of recoverable loans amounting to Rs. 52 billion. (The Asian Age, 1998, Jan.8).

Bulgaria is another country badly hit by deep financial and banking sector crisis. One third of the country's banks including four state-owned and thirteen in the private sector have been declared insolvent in early 1996. (IBA, 1997).

China, during the later part of 1985-1993, witnessed the underlying weaknesses of its financial system. Lack of indirect instruments of monetary control, weak legal and regulatory framework, inadequate supervision system, misuse of inter-bank lending, rising debts and losses were instances of such weaknesses. (IBA, 1997).

In Japan, Fuji Bank Ltd. was reported to have been under pressure due to huge bad loans. The bank was expected to write-off 650 billion yens during 97-98. (The Asian Age, 1997, Dec.15). Japan's banking sector was reported to be worried about accumulation of bad loans held by them, the quantum of which was expected to mushroom. (The Asian Age, 1997, Dec.22). In Japan, it was reported, which boasts seven of the world's ten biggest banks by assets, it is feared that the banks' bad debts were at their peak. It is further reported that "the banks' balance sheets are chock-a-block with bad loans, and that there are many more bad loans than the banks admit to". (The Asian Age, 1997, Dec.19).
2.1.5.5. Indian Banking in the Light of Global Experience.

According to a recent study lessons, experienced by several developing countries where financial liberation programmes were introduced, may be summed up as follows: (i) **minimum prudential norms are required to be implemented** before resorting to financial sector reforms; (ii) the speed and space taken for restructuring the problem banks and their debtors should be considered before taking into account the speed and nature of interest rate liberalisation. Attention in this context must be given for recapitalising the weak banks and restructuring their portfolios; (iii) maintaining macro economic control during reforms is essential for the success of the financial liberation. (iv) Introduction on convertability should move from trade to current account and then to capital account. (Rangarajan, 1994).

In context of these lessons drawn, evaluation of Indian banking system appears to be significant which in other way helps one to understand the functional role of banking in national economy. This has been critically portrayed by Middleton (1994). According to him the:

"....... end-of-term report for the Indian banking industry, conclude that despite some bright spots and one or two star pupils, performance has been characterised by much red ink, a significant weight of dubious assets, low productivity and widespread under-capitalisation. Surely, some argue, as barriers to entry fall, efficient well-capitalised foreign banks will swoop on the Indian market, creaming off the the most profitable business and monopolising foreign trade-related services whilst domestic bankers struggle to extricate themselves from the rubble." (P-10).
The functional effectiveness of Indian banks can be questioned in terms of the extent of loan portfolio contamination. This could be evinced by the fact that the non-performing assets of Indian public sector banks as on end March, 1993 formed 23.2% of the total advances as against 3.7% in the United States and 3.1% in Japan in 1992 (RBI: Trend and Progress of Banking in India, 1993; Bank for International Settlement, Annual Report 1992-93; Kakodkar, 1995).

However, strategic approach, followed in the post-reform period, may bring desired success if quality customer service and cost effectiveness are stressed with attitudenal dynamics. Thus it has been rightly commented by Middleton (1994) as follows:

"The successful banks in India - as elsewhere - will be those that have a rigorously defined strategic focus, a stringent attention to cost and risks, and an obsession with high quality customer service. It will be a difficult journey and some will fall by the wayside, but it is an exciting challenge with significant rewards for the successful." (P-11).
RESUME

The banking is an age-old concept in India tracing back form the Vedic era. Through revolutions over the decades the banking system has taken its present-day shape.

Several milestones the banking industry crossed have been summed-up as the roles played by the Calcutta Agency Houses during 1829 - 1832, the passing of the Reserve Bank of India Act, 1934 and the State Bank of India Act, 1955 which culminated with the nationalisation of fourteen major banks during 1969.

The Banking Regulation Act, 1949 is the principal statute governing the functions of Indian banks. The Reserve Bank of India established in 1935, has been entrusted with all the important functions of a Central bank of a country, and has been given wide powers of control over the banks in India.

The overall economic development of a country depends much on the existence and continuance of a well-organised and efficient banking system. The basic function carried on by the banks is financial intermediation between the savers and the borrowers. The concept of banking in recent years has changed radically from traditional banking to developmental banking.

During the pre-nationalisation era, the commercial banks remained indifferent to the credit needs of the priority sector. The scenario changed in the post nationalisation period, and the concept of social banking emerged. As such, the nationalisation has not only brought wider geographical
and functional reach to the banks but also contributed for its tremendous diversification of activities.

Several authors observed that while the banking system in India made spectacular progress since nationalisation, it has in the process suffered seriously in terms of decline in productivity, efficiency and profitability.

It has been viewed that the deterioration of the financial health of the banking system necessitated the banking sector reforms in 1991-92 as an integral part of the ongoing economic reforms. In spite of the reforms, the banking system is yet to recover fully.

It is not India alone, but the banking system world-wide that has been experiencing more or less similar widespread deterioration in their performance including the most developed countries like America, Great Britain, Japan and other developing countries in Asia and Latin America. Adjusting with the reforms procedure by the banks is a very difficult task.
2.2. LENDING BY COMMERCIAL BANKS: Trends

2.2.1. Principles of lending.

Mather (1960) described the ideal advance is "one which is granted to a reliable customer for an approved purpose in which that customer has adequate experience, safe in the knowledge that the money will be used to advantage and repayment will be made within a reasonable period from trading receipts or known maturities due on or about given dates." (P-1)

General principles of good lending followed by the banks while appraising a loan proposal include the followings: (a) Safety of advances, which is the most important factor the banker has to ensure that the advances made are safe not only at the time of lending, but it remains safe throughout. (b) Liquidity: it is not enough that the loan will be repaid; it is equally important to ensure that the money should be returned on demand or as stipulated. (c) Purpose of the advance should be productive which provides source of repayment. The purpose, in addition, should be short-termed which ensures liquidity. (d) Profitability: Advances made by the bank should be profitable to it. (e) Security: It is always desirable that the advances are made against securities, to meet further contingencies. (f) Spread: more the diversified fields of lending, more the risk is of lending banker lowered. (g) National interest, suitability as regards advances must prevail over other principles of lending (Bedi et al, 1989; Suneja, 1992; Singh, 1975).

It is generally believed that the fundamental basis of all credit transactions is confidence. Unless a banker has sufficient confidence in the borrower, it would never consider of lending
him willingly. Study of the basis of confidence would answer the basis of credit. The fundamental principles of the basis of credit are a study of Character, Capacity and Capital—commonly known as three C's of the borrower. There are authors who have, instead, mentioned these as Reliability, Responsibility and Resources or three R's. Some American authorities have added two more C's i.e. Collateral and Conditions (economic). The character indicates the intention of the borrowers to repay the loan. The integrity of the borrower as regards repayment must be unquestionable. The behavioural factors like the honesty, the sobriety, the promptness of payment, personality, good habits, the capability and intuition of carrying a project through and the reputation of his associates, are instances which reflect the character of a customer. Capacity means the ability to profitably employ the fund borrowed, as well as to repay on demand or as per stipulations. The capacity of the borrower is closely related to the success or failure of his venture. Here capacity and experience go hand in hand. Capital is another important factor the possession of which ensures the banks to lend to the borrower. As a general rule he should have sufficient capital of his own besides the accommodation asked for. (Tannan, 1995; Bedi et al, 1989; Suneja, 1992; Kuhn, 1990.)

Rangarajan (1994) while evaluating the ongoing reform of the financial sector opined that:

"Market for credit is an inter-temporal market since the loan granted by a lender is exchanged with a borrower’s promise to repay. Thus, information becomes a critical factor." (P-1582).
As such, obtaining information becomes absolutely necessary for the lending bankers. Commercial banks in advanced countries like the United States and the United Kingdom, depend largely on the reports of borrowers supplied by the reputed credit investigation agencies. In India such agencies are not in existence. However, since 1962 Reserve Bank of India has been empowered to collect borrower information from Banks/notified financial institutions, which in turn is passed on to the bankers who need these (Tannan, 1995; Bedi et al, 1979).

During the process of granting credit, procedures the commercial banks and financial institutions follow consist of (a) filling up of application form by the borrowers, (b) detailed appraisal of the project including viability as regards to technical marketing, managerial, financial and often social benefits, (c) sanction of the limit by the sanctioning authority, (d) legal documentation, (e) disbursement of facilities sanctioned, (f) subsequent follow-up and monitoring, etc. (ICAI, 1987; Pahwa, 1990; Singh & Singh, 1983).

Rodkey (1944) observed that:

"lending money on an unsecured basis requires a somewhat rare combination of qualities, including an understanding of people and an ability to judge them, as well as a technical knowledge of accounting and financial statements." (P-98).

Singh & Singh (1983) opined that consideration of credit need, risk involved and end-use of credit are the three major factors involving a credit decision. Information and data relating to these factors are essential for arriving at a decision. Financial statements such as balance sheet, showing the asset liabilities position and profit and loss account, showing the
profitability, of the borrowers, are considered to be the most important sources of information. Financial analysis, be it for the past performances or future projections of the borrowers' financial health, helps the banker taking credit decisions as regards to fresh proposals or enhancements relating to term loans, working capital facilities or other loans.

2.2.2. Commercial Bank Lending Policy in India: Changing Pattern.

Robinson (1951) observed that:

"commercial bank loan policies change. Banks are sensitive to the pressures of evolution. Their policies, particularly those concerning loans, have been shaped by the pressure of economic circumstances." (P-93)

During the early years of pre-nationalisation era lending by commercial banks in India had been almost restricted to the financing of movement of agricultural produce from the farmers to the traders. Advances had been made mainly against stocks. Till nationalisation, the banks sanctioned loans mostly to the large and medium scale private industrialists as well as to the internal and external traders. NCC Study Group appointed by the Reserve Bank of India in October 1968 to examine the extent of credit requirements of trade and industry raised questions about the purpose and direction of commercial bank lending in India; and observed that security-oriented lending approach resulted in overfinancing to restricted users. The group recommended that lending should be more of purpose-oriented than security-oriented. However, 'security-cum-guarantee' pattern of lending continued with little or no change till 1969. (Tandon, 1975).
The concept of commercial bank lending has undergone a radical change with the introduction of social control measures and subsequent nationalisation of banks in 1969. It was felt that the prevailing lending system helped concentration of economic power, and contained very little social commitments. The financial needs of the priority sector was neglected, which became the new claimants of bank credit but without adequate securities. It was, therefore, advised by the Reserve Bank of India to relax the security norms against loans to this hitherto neglected sector.

Another conceptual change occurred to the lending pattern; emphasis was given on the productivity of projects and actual credit needs rather than securities offered. The change, however, did not mean sacrifice of securities. The aspect was left to be decided by the lending bankers. (Tannan, 1995; Tandon, 1975).

Chore (1979) observed that:

".. the style of credit has some influence on credit management and credit regulation. It has also a positive impact on the follow-up of credit at micro-level." (P-19)

Lending norms of commercial banks comprise mainly working capital and term loans (Bhuchar, 1978).

The financing pattern of working capital facilities followed by the banks almost all over the world may be classified as (a) cash credit and/or overdraft (b) loans and (c) bills. Overdrafts are the most common line of credit in UK, Switzerland, Netherlands, Italy, Sweden, France and Germany. Whereas, term loans for short durations are the predominant form of short term lending in USA and in Japan where overdrafts virtually do not exist. The bill system is extensively used in France and in Italy and it is common in Japan (Chore, 1979).
For evaluating a system in existence it is rational to compare it with the basic attributes of the system. The logic stands true for lending system also, which according to Chore (1979) are such so as to be (a) amenable to rational management of funds by the banks; (b) related to the credit limits with increase in production; (c) amenable to credit control measures by the central banking authority; and (d) operationally convenient to the lending banker.

The three main systems of financing, namely Cash Credit / Overdraft, Loans and bills have been evaluated in the light of the aforesaid attributes by Chore (1979) as detailed hereunder.

Cash Credit system has been the predominant form of lending in India account for nearly half the total bank loans. Under the system, limits are fixed according to maximum credit requirements of the borrowers and withdrawals are made according to the credit needs of a particular time; thereby leaving an unutilised portion of credit limit. The system was found convenient to both the borrower and the bank when lending was mainly restricted to the early traders on the basis of securities alone. With the change in the pattern of lending particularly since nationalisation in 1969 the cash credit system revealed its inherent weaknesses such as (1) fixing larger limits than required leading to possible diversion of funds by the borrowers (2) being not conducive to borrower efficiency (3) reviews are delayed (4) not encouraging proper fund management by the bank (5) controlling of credit portfolio by the banks become difficult. Inspite of numerous deficiencies the system survived for long because of its (1) flexibility (2) operational convenience and (3) acceptability to both the bank and the borrower as being accustomed to the system.
Many of its drawbacks have lost its relevance since the implementation of Tandon committee recommendations mainly as regards norms for inventory and receivables.

**Loan system** for working capital purpose has the advantage of being pre-determined short durations. The borrower needs to negotiate with the bank everytime he requires fresh or renewed loans. The decision to grant or refuse lies with the bank, thereby enabling the lending bank to plan its credit policy as well as the central banking authority to regulate credit effectively. The system has built-in advantage for review at short intervals unlike cash credit system. Main weaknesses of the system are (1) its operational inflexibility (2) enabling the lending bank to exercise relatively lesser control over the funds disbursed (3) loan becoming 'roll over' in nature, like cash credit, and in effect never repaid (4) absence of well-developed secondary markets to supplement bank finance unlike in USA and other countries. It may not be possible to depend solely upon the system in Indian condition.

**Bill system** in India has been considered as incidental to cash credit system, the extensive use of which has been recommended by several committees and study groups appointed by the Reserve Bank of India, who have narrated several advantages accruing to the borrower, to the banker as well as to the central banking authority. The system suffers from its restricted use.

Chore (1979) **concluded that no system is superior** to other system, the way one system is operating matters more than the system itself; and recommended that **combination of three lending system should be retained** for extending bank credit.
Bill market scheme introduced in 1952 for limited purposes extended to cover all scheduled banks afterwards. The new bill market scheme, 1970 came into existence for rediscounting genuine trade bills and for creation of a bill market in India. Several steps taken in the past could not popularise the bill system of financing, nor any regular bill market could be set up in India. However, purchase and discount of bills for financing book debts have been quite popular in the country. The system of drawee bills, on the other hand, has not been successful in spite of several measures taken by the Reserve Bank of India. Chore (1979) recommended, inter alia, that a part of the cash credit limit should be compulsorily converted into drawee bills and an autonomous institution may be set up to encourage the bill system in the country in line with the Discount Houses in UK. (Chore, 1979; Datt & Sundharam, 1995).

For the introduction of Factoring services similar to those in USA, a study group was appointed by the Reserve Bank of India. Most of the recommendations by the group have been accepted by the central banking authority in principle. (Kalyansundaram, 1988; Datt & Sundharam, 1975).

Securitisation, originated in the United States during the seventeens, is an off-balance sheet financing style. Rai (1994) observed that:

"the process of securitisation involves the packaging of designated pools of loans and receivables and sale of this packages to various investors in the form of securities, which are collateralised by the underlying assets and their associated income streams. ...... In the wider macro-economic perspective, securitisation can lead to greater specilisation
in the loan-making process." (P-34,37).

Standard and Poor’s New York (1994) observed that the pace of development of securitisation was slow in countries other than the United States and prospect of early progress was found to be unsatisfactory.

Tandon (1975) recommended, inter alia, that (a) the annual cash credit limit may be bifurcated into a 'core loan' representing the minimum requirement throughout and a 'demand loan' to take care of any upward fluctuations; (b) the cash credit facilities be extended on the basis of quarterly information system to ensure that the borrowers should not use the fund in an unplanned manner; and (c) receivables should be financed by bills rather than cash credit. The above recommendations have not been implemented in totality thereby the desired result could not be achieved, as it was observed by Chore (1979). However, with the introduction of 'Loan System' for delivery of bank credit during April, 1995 the cash credit limits both present & future for Rs. 20 crores and above have been bifurcated into cash credit limits and short term loans repayable on demand for working capital purposes. (Tandon, 1975; Chore, 1979; RBI, Jul 1995).

Singh (1975) observed that the main objective of lending policies of commercial bank, formulated explicitly or used as an administrative tool or even if left to individual judgement, is to achieve sound loan portfolio. Several factors explicit or implicit such as legal, political, social, cultural, ethical, economic and psychological, influence lending decisions.

Delay in appraisal and sanctioning of the project as well as disbursement, where such loans are otherwise justified, has been observed by several authors / committees / study groups.
Financial Institutions lend term loans while banks have been providing mainly working capital requirements of the borrowers, thereby rendering complementary services but without proper co-ordination. Further, commercial banks have been providing term loans increasingly over the years either alone or in participation with financial institutions. These and the increasing problem loans throw further challenge which require effective co-ordination between the banks and the financial institutions to safeguard their mutual interest. (Bhuchar, 1978; Chore, 1979; ICAI, 1987).

The selective credit control measures are taken by the Reserve Bank of India to regulate credit flow with a view to reduce the pressures on demand arising out of bank credit. A study on the effectiveness of such tool in the context of the ongoing economic reforms revealed that no clear cut relationship could be established as regards the trends of the movement of prices of prices, output and credit; neither the various elasticities concerning them displayed any coherent behaviour. It has been concluded that selective credit control may not be worth pursuing any more. (Jain, 1993).

Shankaranarayanan (1993) observed that the central banking authority of the country is in the way of giving more autonomy in lending to the commercial banks; but the extent of such achievement depends partly on the risk perception by the lending banks.

Patil (1994) observed that with the deregularisation of investments, at least partially, the banks with more funds available for discretionary lending need to calibrate their lending policies to maximise profit and thereby upgrading the
loan portfolio. The banks should lend more through bill scheme or commercial paper rather than cash credit or investment in debentures instead of providing term loans.

Rangarajan (1997) while exploring the trend and prospect of Indian economy observed that the operationalisation of Bank Rate is an important step towards improving the monetary of the banking system. He further opined that the revamping of the Credit Delivery System through the empowerment of the banks in various dimensions, is another important step to improve the banking system. According to him, "the freedom given to the banks to evolve their own methods of assessing the working capital requirements would result in quicker decision making and speedier flow of funds from banks to their borrowers". P.885.

2.2.3. Nature of Loans and Advances

Funds available with the Indian banks after meeting the statutory reserves, i.e., CRR and SLR, are employed by way of (a) Call loans and loans repayable at a short notice, (b) Investments in government and other stock exchange securities, and (c) Loans and advances (Tannan, 1995).

The call loans and loans repayable at a short notice, are funds largely lent to the money market, the discount houses and to the members of the stock exchange, repayable at short notice, which serve as a secondary line of defence to the bankers to meet the repayment obligations. Investments in government and other stock exchange securities represent mostly the funds invested in gilt-edged and other stock exchange securities. The quantum of such investments varies from time to time, depending on the surplus available with the banks and yield percentage of the investments.
The most important method available to the banks for deployment of its funds profitably, is by way of granting Loans and advances (Tannan, 1995).

The lending function of a commercial bank is of utmost importance. While the banks earn fairly by way of commission, exchange, bank charges, etc., the major contribution by way of interest comes from interest and discount earned on loans and advances (ICAI, 1994). It is, therefore, necessary for a careful consideration of the position of a banker with regard to loans and advances (Tannan, 1995). The scheduled commercial banks in India lent Rs 4684 crores during 1970-71, which went upto Rs 211,561 crores during 1994-95. The rate of credit expansion during 1993-94 was slower compared to the previous year. Reason accounts for lower expansion of non-food credit, which has reflected an overall slack demand for bank credit. The contributing factors are (a) substantial fund mobilisation by the corporate sector through GDRs and foreign currency convertible bonds, (b) access to commercial papers at favourable terms, (c) continued slower industrial growth, (d) better inventory management, and (e) larger access to primary capital market. Moreover, the banks under the strain of prudential and capital adequacy norms, had to go for quality loans. In contrast, the rate of expansion in bank credit during 1994-95 compared to previous year was due to expansion in non-food credit as a result of resurgence of industrial activity and increase in import. (RBI: Report on Trend and Progress of Banks in India, 1993-94. 13-15; RBI Annual Return 1994-95. 50; Tannan, 1995. 371).
Under Section 21 of the Banking Regulation Act 1949, the Reserve Bank of India is empowered to determine the policy in respect of advances, to be followed by banks. This covers purpose, margins, maximum limit, the rate of interest and other terms and conditions of advances. (ICAI, 1994, Guidance note on audit of banks, page 57-58).

The banks make advances normally against tangible assets in the form of primary and collateral security, in addition to guarantees from third parties. On certain categories of advances DICGC and ECGC coverages are also available. (ICAI, 1994; Tannan, 1995).

To meet the social banking obligations, banks extend facilities to the agricultural sector and priority sector which include (a) advances to the weaker section of the society, (b) equipment financing in backward areas, (c) scheme like SEUP, SEE:U, Jawahar Rozgar Yojana, (d) various rural advances, (e) SSI and tiny sector loans (ICAI, 1994).

Another development in modern bank facilities, is personal loans, unlike industrial or commercial loans. Those are given for consumer durables in addition to house building loans. (ICAI, 1994; Tannan, 1995).

While advancing to very large borrowers, the total loans are shared by a group of banks/financial institutions. Such loans are known as consortium advances. In addition, banks also enter into arrangements under inter-bank participation scheme either on risk-sharing basis or non risk-sharing basis. (ICAI, 1994; Tannan, 1995).
Loans and advances, on the basis of securities, are classified as (a) secured, (b) unsecured, and (c) covered by bank / government guarantees. Different types of securities acceptable to the banks include (1) bankers general lien (2) stock exchange securities and other securities (3) goods (4) documents of title to goods (5) gold ornaments and bullions (6) life insurance policies (7) banks deposit certificates (viii) hire purchase documents (8) plantations (10) immovable properties (11) packing credits (12) pre-shipment credit in foreign currencies (13) trust receipts (14) third party guarantees etc. (ICAI, 1994).

Loans and advances for which the bank do not have any collateral security other than personal security of the borrower alone, are known as 'unsecured'. The most important form in which banks extend facilities without collateral securities, is bills purchased and discounted. Such bills may be rediscounted by the banks with Reserve Bank of India or IDBI (ICAI, 1994; Tannan, 1995). There is yet another scheme introduced by the RBI known as 'Bill Market Scheme' which did not become very popular in India.

Advances covered by bank/Government guarantees include guarantees by the Central or State Governments, ECGC and DICGC or advances granted under rehabilitation packages approved by BIFR / term lending institutions (ICAI, 1994).

The aforesaid classification of advances as 'secured' or 'unsecured' by banks have undergone a radical change in 1992 when the Reserve Bank of India, based on Narasimham committee report, issued guidelines for income recognition, asset classification, provisioning of bad and doubtful debts and other related matters. According to the guidelines, in the matters of income recognition
or provisioning the most important aspect to be considered by the bank is whether the advances are 'performing' that which generate income or 'non-performing' that which has ceased to generate income. The Reserve Bank of India has laid down objective basis for determining performing advances or non-performing advances. (ICAI, 1994).

2.2.4. Nature and Attributes of Bankers’ Securities

Although good lending policy and adherence to the fundamentals of advances ensure sound loans, it is prudent to obtain security as an insurance against some untoward and unexpected developments in future which may jeopardise the safety of the funds lent. Risk is inherent in lending, and security lowers its extent. Due care has to be exercised to ensure the securities with the right title thereto and having adequate value thereof all the time. (Mather, 1960; Suneja, 1992; Chary & Chary, 1994).

The essential attributes of sound securities to the bankers are their valuations, titles, control and marketability. The value should be readily ascertainable as well as reasonably stable. It is desirable to have security value which should be more than the advances, leaving a margin for contingencies. The title to the security should be safe, simple and preferably transferable without undue cost or litigations. The title must continue to be good. The bank should ensure that it should incur no third party liability, arising out of the title. The securities, having immediate transferability, are the best ones. The securities should preferably be readily realisable in all conditions with no or little cost. Control is necessary to ensure that the securities cannot be disposed of by the borrowers and proceeds diverted. In addition, it is always
desirable to have securities with regular yields. To be precise, the bank should easily obtain the title at the earliest so that the securities can be sold easily and profitably to cover its dues as and when required. (Mather, 1960; Suneja, 1992; Bedi et al, 1968).

Secured advance means an advance made on the security of assets, the market value of which is not in any time less than the amount of such advance and unsecured advance means the advance not so secured (Section 5.n. of the Banking Regulation Act, 1949 as amended).

Securities are classified into two broad categories (a) primary security and (b) Collateral security. Primary Securities may be personal or impersonal or both. The personal securities are furnished by the borrowers by way of promisory notes, acceptance/endorsement on bill of exchange, executing mortgage deeds or loan agreements. Impersonal securities are provided when charges by way of hypothecation, pledge or mortgage are created over the borrowers assets both moveable and immovable. Impersonal securities again may be in the form of specific or continuing. Collateral securities, obtained from the borrowers own properties to secure the accounts, are called direct collateral securities like mortgage of the land and property of the borrower taken in addition to hypothecation of goods. Indirect collateral securities, by contrast, are furnished by third parties to secure the borrowers advances like guarantees given. Collateral securities in the United States and in the United Kingdom are different from those of India. Indirect collateral securities have the advantages over direct collateral securities in the case of insolvencies of the borrowers when the banks, for the remaining portion of its
unrecovered dues, can claim such securities. (Suneja, 1992; Mather, 1960; Kuhn, 1990).

It is not enough that the securities are good but the methods by which the banks obtain these should be legal and perfect. It is, therefore, to be ensured that the charge must be complete and all formalities are complied with so that the securities are readily available to the banks in case of default by the borrowers. (Bedi & Hardikar, 1979).

The methods commonly used by the banks for obtaining the securities are by way of (a) Mortgage, (b) Pledge, (c) Lien, (d) Hypothecation, (e) Assignment, (f) Set-off, (g) Guarantee, and (h) Indemnity. (Mather, 1960; Bedi & Hardikar, 1979).

2.2.5. Non-Performing Assets: Concept, Magnitude and Causes.

Narasimham (1991) while evaluating the financial health of the banking system of the country viewed that:

"a significant portion of the funds of banks and financial institutions is ...... blocked in unproductive assets, the values of which keep deteriorating with the passage of time."

(P. 59-60).

Attuned with him Gupta (1994) opined that:

"the slow pace of recovery of bad and doubtful debts had been adversely affecting the viability of various banks and financial institutions." (P-8).

Madhukar (1995) was greatly concerned about the extent of loan portfolio contamination finding that:
".. presently around 21% - 23% of the total assets of banks in India are non-performing as against a level of 6% - 8% achieved by many of the banking system abroad." (P-228).

While elaborating the management of NPA in Banks, Rajagopal (1998) viewed that the crucial challenge the banks face "relates to management of non-performing assets". He further opined that "A bank may be a sound bank today; but may, in an anxiety to make profits, make bad advances which will turn the bank unsound at a future date." (P-50).

Rangarajan (1994) opined "improving profitability requires efforts in several directions. You have to cut costs, improve productivity and ensure better recovery of loans. The major drag on the profitability of the banks is the high level of non-performing assets. For the system as a whole, the proportion is around 22 per cent, which essentially means that the loan portfolio gets only around 80 per cent of the nominal rate of return. The paramount task before banks is thus to bring down this dead weight. While the ratio of NPA to loan assets can be brought down to various measures, the biggest concentration must be through recovery. (P-930).

Parmar (1995) observed that "the recovery aspect of lending was neither considered strategic nor could it find a place in the business policy of any bank up to the early eighties. It was the growing blockage of huge funds in non-performing assets and the poor recoveries that compelled bankers to consider recovery as a key performance area. ... If the present rate of growth of the overdues is not arrested and suitable remedial measures are not initiated the situation will become unmanageable and disastrous. (P-13,14).
Taneja (1994) while describing the plan of action for improving the profitability of the banks observed, inter alia, that improved recovery would reduce NPA, increase income and decrease provision against doubtful debts.

Thingalaya (1994) observed that "mounting overdues is one of the major problems faced by the banks today. While it is more pronounced in the case of rural credit it is subtle in the case of other advances where the amount involved is very huge. The delinquency ratio is on the increase which is more often due to unwillingness to repay rather than on account of inability to repay. Natural calamities often adversely affect the recovery performances of the banks in rural areas. But of late, a growing tendency among certain section of the rural borrowers is to delay the repayment, hoping that the overdues may be written off."(P-45). Thingalaya (1994) further observed that money advanced to sick industries are stuck. The recourse to legal procedures for recovery is a time consuming process costing huge expenses to the banks. Under compulsive socio-economic situations sick industries are allowed to continue with the help of further assistance by the lending banks. The money so stuck can not be recycled. Banks suffer further by funding the overdues and by lowering interest rate. The governmental support so far for recovery of bank overdues has not been very commendable.

Identification of overdues may be easy in case of instalments due on term loans or demand loans which are repayable at the end of a stipulated period, or interest accrued thereon. But the identification has not been so easy in case of other types of credit facilities. During July 1983, the Reserve Bank of India issued guidelines about what constituted overdues. But in absence of uniformity in classification the central bank issued in July
1985 revised guidelines showing the following categories of advances according to health code system to be treated as overdues: (a) loans though due for repayment, remains unpaid (b) all loans recalled but not repaid (c) in case of term loans the instalments of which have become due but remained unpaid (d) advances treated as bad and doubtful of recovery or against which suits have been filed (e) advances to sick / non-viable units and (f) all stagnant advances. The entire amount involved as regards advances or term loan instalments though due for repayment remained unpaid under (a) and (c) aforesaid may not always be difficult of realisation but the problem of recovery is eminent. Advances under other categories should be considered as 'sticky' requiring prompt and sustained efforts for recovery. The purpose of identifying overdues is of crucial importance as it enables the banks to take necessary corrective action. (ICAI, 1994).

In order to assess the quality (or health) of the advances portfolio of the banks for effective monitoring and follow-up as a continuous process 'Health Code System' of loans and advances was introduced in 1986. Under the system advances have been classified as Code 1: Satisfactory, Code 2: Irregular, Code 3: Sick/ viable under nursing, Code 4: Sick/ non-viable, sticky Code 5: Advances recalled, Code 6: Suit-filed accounts, Code 7: Decreed debts, Code 8: Bad and doubtful debts. As per above classification, the advances falling under Code:4 through Code: 8 have been considered as leading to recovery problems. (ICAI, 1994).

With the introduction of prudential norms for income recognition, asset classification into performing assets and non-performing assets (popularly known as NPA) and provisioning during 1992, the Reserve Bank of India reviewed the need to classify the advances
as per the health code system; and decided in 1994 to leave the matter at the discretion of the individual banks. The central banking authority, however, suggested that the health code system designed as a control mechanism may continue to serve as Management Information System for evaluating the credit portfolio of the banks. (RBI, 1994: ICAI, 1994; Fos, 1988).

Objective bases for determining Non-Performing Assets have been laid down by the Reserve Bank of India to ensure true reflection of the financial health of banks as well as to bring conformity in accordance with the internationally accepted accounting practices. Non-performing advances are those which do not generate any income for the bank. Such advances have been divided into sub-standard, doubtful and loss assets based on objective parameters. NPA has been defined as a credit policy in respect of which interest remains 'past due' for a specified period. Narasimham committee identified the causes for deteriorating health of banking system and recommended various remedial measures which include, inter alia, prudential norms for aforesaid income recognition and asset classification. (Reserve Bank of India, 1991-92, 1992-93, 1993-94; ICAI, 1994).

Reserve Bank of India (1993-94) opined "apart from the magnitude of current profit, the level of non-performing assets (NPAs) provides an important measure of the performance of banks as it reflects on the quality of loan portfolio." (P-5).

Bank for International Settlements (1992-93) remarked "a useful complimentary indicator of distress is non-performing loans. This measure focuses on asset quality and gives some idea of problems that are latent in the institutions’ portfolio.
The magnitude of the problem of overdues is evinced from the astronomical figure of Rs. 10,801 crores in 1990-91 representing around 9.29% of total advances by the scheduled commercial banks. Such overdues constituted 15.87% in 1985-86 and 16.8% in 1986-87. It is not only the quantum involved but the incremental feature which is more alarming. According to data available, bank credit involved in sick industrial units amounted to Rs. 11,533 crores in 1991-92 increased to Rs. 13,134 crores in 1992-93; out of which credit involved in 'non-viable sick units' constituted around 39%; while the rate of overdues as a percentage of total outstanding advances of RRBs increased from 32.1% in 1991-92 to 32.2% during 1992-93. On the other hand, Non-Performing Advances constituted 13.59% and 14.46% of total bank credit during 1990-91 and 1991-92 respectively, calculated on health code basis, rose to 23.2% and 23.6% of total bank credit during 1992-93 and 1993-94 respectively. Such NPAs are expected at around 20% during 1994-95 (Reserve Bank of India, 1991, 1993, 1994, 1995; Fos, 1988).

The Non-performing Assets (NPAs) touched Rs. 39,583.94 crores of the public sector banks, which constituted 17.3 per cent of the total advances as on March, 31 1996 as against Rs. 38,385.18 crores representing 19.5 per cent as on March, 1995. (Reserve Bank of India, 1997).

The causes leading to accumulated huge bank overdues have been described by Upadhyay (1994) as a consequence of "variety of reasons, either internal or external. The internal reasons could be identified as defective loan procedure, granting shorter repayment period, ineffective supervision, over or under financing, etc, whereas external reasons could be of misutilisation of funds, unforeseen natural calamities, poor quality of assets etc. " (P-13).
Fos (1988) observed "the constraints and reasons of low recovery can be grouped into two categories: external factors and internal constraints in the banking system. Recovery problems posed by natural calamities like poor monsoon are not as difficult as they are when the difficulty arises on account of external factors like (i) constraints due to government interference, (ii) problems on account of legislation, (iii) problems created by the 'pressure groups', (iv) unresponsive trade union activities, (v) existing legal system and unhelpful bureaucracy." (P-185).

Khutate (1995) while describing the reasons of poor recovery by banks, observed that "the borrower may be the wilful defaulter or the circumstantial defaulter. .... In certain cases sometimes some officers are also involved who for small benefits put public money at stake. There are ..... borrowers who while borrowing, project such a rosy picture of their business and with their behaviour attract managers in such a fashion that the managers have no doubt about their integrity and this results in bad debts in spite of the managers integrity and attentiveness." (P-32).

Fos (1988) opined "the recovery problems may also be considered from the volume of bank credit involved in sick industrial units". (P.147).

Kanagasabapathy (1987) remarked that the most difficult advances in terms of recovery have been the amounts locked up in sick industrial units in the medium, large and small scale industries. Recoveries become more difficult considering the social dimension involved, as the government can ill-afford closing down the sick industries which would add to the ever-increasing unemployment problem.
According to section 3(o) of the Sick Industrial Companies (Special Provisions) Act, 1985 "a sick sick industrial company" means an industrial company (being a company registered for not less than seven years) which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year.

To enhance the coverage, the Reserve Bank of India advised the banks to take remedial measures when the net worth of the industrial units have been eroded by fifty per cent. Such units are known as 'weak' units to distinguish those from 'sick' units. All the guidelines issued by the Reserve Bank of India regarding 'sick' units apply mutatis mutandis to 'weak' units. The 'weak' units have since been redefined to include units falling under partnership firms, proprietary concerns, etc. and 'net worth' has been redefined as 'peak net worth'. (Suneja, 1992; Reserve Bank of India, 1994).

In the words of Suneja (1992) "industrial sickness can be defined as a phenomenon whereby large number of industrial units are unable to pay their dues or service their debts due to deteriorating financial position for a variety of internal and external causes specific to the industry in general and / or to the unit in particular." (P-613).

Causes of sickness have been classified as (A) Internal causes comprise (1) wrong planning as regards technical feasibility and economic viability (2) cost over-runs and short financing during project implementation (3) poor management as regards production, manpower, marketing strategy including defective pricing policy, lack of market information, dependence on single
customer etc, and incompetence of overall management such as lack of professionalism, undesirable concentration of power, lack of control, unproductive and flamboyant expenditure, dishonesty etc. (B) External causes including (1) infrastructural bottlenecks (2) non-availability of adequate finance at the right time (3) constraints arising out of government control and policies including red-tapism etc., (4) marketing constraints like market saturation, revolutionary technological change, economic recession etc, and (5) extraneous matters like civil war, strikes, labour union problems acts of God. (Suneja, 1992; Singh & Singh, 1983; Kanagasabapathy, 1987).

Moreover, factors internal to banks also contributed heavily for low recovery like there had been visible delays in the matter of rehabilitation due to internal inadequacies on the part of the lending bankers. In several cases immediate decisions for rehabilitation, recovery, compromise were not taken by the managers for fear of accountability. There had been laxity in recovery efforts by the bank personnel once provision has been made for doubtful advances. The experience of banks in realising claims from DICGC and ECGC neither is very satisfactory. (Pos, 1988).

The declaration of debt relief scheme from time to time by the state and central governments affected recoveries badly as good number of borrowers ceased repaying the bank loans with a hope of similar relief in future (Upadhyay, 1994).

Madhukar (1995) has rightly commented that "the none-too-favourable repayment culture tolerated for long on account of a host of reasons has compounded the problems of loan delinquency." (P-228).
The causes of NPA have been summarised by Narasimham (1991). According to him "inadequate appraisal of credit application in terms of productive use of credit and insufficient post credit supervision has affected recovery of dues and increased loan delinquencies. The disturbing growth of overdues is a consequence of laxity and departure from the principles of sound banking." (P-30).

Rajagopal (1998) while reviewing the management and identification of Non-performing Assets viewed that identification of NPAs is a continuous process and as such this is a perpetual problem for both weak and sound banks. The problem is more grave in case of weak banks. In his words:

".. a weak bank will find it difficult even to retain good borrowal accounts leave alone attracting good advances. As a result, adverse selection of borrowers takes place. Moreover, high incidence of NPAs in a weak bank is also the reflection of poor appraising standards and hence undertaking fresh credit expansion with such skills may endanger the quality of assets. The problem gets more complicated in view of NPAs in human resources, fear psychosis, accountability etc., as such banks are likely to have more cases involving vigilance." (P-50).

2.2.6. Improving Recoveries and Reducing Non-Performing Assets: Legal and other Remedies available to the Banks.

Remedies available to the bankers for recoveries of overdues may be legal or non-legal as could be evinced from the observations made by Jilani (1995) who viewed that "non-performing assets of public sector banks, though reduced in the last three years,
still form a high proportion of assets. Unless these bad debts are brought down to minimum levels, it would be very difficult for these banks to attain competitiveness. While strengthening recovery apparatus and resorting to compromises and write-offs in difficult cases are important strategies being followed by the banks, providing them with sufficient legal powers for speedy recovery is also essential." (P-9). Fos (1988) was much concerned about the increasing overdues and advised several non-legal remedies to the lending bankers for recoveries in addition to legal remedies available. (P-187). Attuned with above Upadhyay (1994) preferred non-legal remedies for early recoveries to legal remedies. (P-13). Indian Banks’ Association (Oct 1995) specified following action plans for reducing NPAs through legal recourse. (a) by following-up of legal cases already initiated and remain pending at civil courts; (b) by referring eligible cases to tribunals; and (c) by preferring attachment of the assets of the defaulted borrowers secured to the banks as securities while filing suits against them. (P-38).

Suit filed accounts form a significant part of the advances under NPA, as observed by Fos (1988). According to him, legal process continues to be slack and needs thorough restructuring. The areas identified by him include the followings: (a) exclusion of the period of limitation; (b) setting-up of special courts / tribunals for early disposal of cases; (c) abolition or reduction of court fees payable by the banks; (d) empowering the banks like financial institutions to dispose of the properties charged; (e) authorising the banks to sell the moveable assets hypothecated / pledged with it to adjust the overdues without intervention of the court; (f) treating the acts of unauthorised disposal of charged properties, by the defaulted borrowers, as cognizable
offence liable for criminal action. (P. 186-187). In addition to the above, the following\textbf{basic impediments causing interruption to early recoveries}, have been identified by Indian Banks' Association (Oct 1995): (a) the debt recovery tribunals though started functioning, are located in limited places; should be widened; (b) the rehabilitation norms need to be streamlined; (c) the cases referred to BIFR have not been speeded up. (P-37).

Attuned with above, Khutate (1995) viewed that "after all the measures for recovery the only remedy that remains with the bankers is the filing of a suit for recovery and execution of decree after it is awarded by the court. But from the date of filing of suit to the date of execution of decree sometimes it takes \textbf{10 to 14 years for its final disposal}" (P-32). Jilani (1995) has rightly opined that the commercial banks should be treated at par with the co-operative banks as regards to attach the defaulted borrowers' assets including salaries and other receivables to recover bank dues. (P-9). The legal hindrances faced by banks have not escaped the findings of Narasimham (1991); according to him "banks and financial institutions at present face considerable difficulties in recovery of dues from the clients and enforcement of security charged to them due to the delays in the legal process. ....... Banks also incur substantial amounts of expenditure by way of legal charges which add to their overheads." (P. 59-60). He further cosidered the issue relating to speedy recovery of overdues and strongly recommended, in line with the recommendations of \textbf{Tiwari committee} set up by the Government for the purpose, that special legislation be introduced forthwith (P-60) and opined that "... unless a proper judicial framework is established which could help banks and institutions in enforcing the claims against their clients
speedily, the functioning of the financial system would continue to be beset with problems." (P-60).

As regards cost and time involved in legal remedies Bedi (1979) remarked that "legal proceedings entail a good deal of delay and expense and the results in the long run are not generally satisfactory. (Bedi et al, 1979. 461). In tune with him Upadhyay (1994) observed that "the legal actions involve high cost and long time. Even after settlement of the case, the decree has to be filed and executed periodically as per the terms which is an unpleasant and difficult task. This process also slows down the speed of follow-up and results in lethargic attitude by the banker" and suggested procedure of seizure of the properties charged as an alternative. (P-13). While evaluating the legal course of action as a measure of recovery of NPAs, Nayar (1994) opined that it is "......... necessary to strengthen legislative provisions and processes so as to ensure that the guilty non-challant borrowers with unpaid overdues do not escape the rigours of 'adjudicated insolvency' for an unduly long period " and viewed that the strength of insolvency proceedings serve as an effective legal weapon in the hands of the lending bankers. He has welcome the introduction of the special legislation called 'Recovery of Debts due to Banks & Financial Institutions Act, 1993' and the tribunals set up under this Act.(P-13). Gupta (1994) agreed with above by criticising the existing legislative procedures by saying ".. the prevailing system of recovery of bank dues through the machinery of civil courts is not only time consuming but also non-productive and expensive. (P-8). Falling in line with the views aforesaid, Rangarajan (1994) remarked that "... the legislative system will have to provide facilities which enable the banks and other financial institutions to approach civil courts for recovering their dues expediously." (P-
Several non-legal remedies available to the lending bankers for recovery of overdues have been examined by Fos (1988). According to him "... various non-legal remedies may be resorted to recover the sticky advances so that the funds locked up in such advances can be recycled and non-performing assets reduced to a considerable extent." (P-187). The non-legal measures as considered by Indian Banks' Association (Oct 1995) are outlined hereunder: (a) Follow-up and monitoring of defaulted borrowers by setting up 'recovery cell' or 'committee' from within the banks: (b) having dialogues and/or negotiations towards reduction by way of compromise proposals; (c) seeking assistance from government machineries; (d) early rehabilitation of sick units; (e) opting to recall of advances to non-viable units, etc.(P. 37-38) Fos (1988) suggested certain course of action shown below to derive desired result in recovering NPAs. (a) Proper recovery climate especially the priority sector advances, which continues to be adversely affected by debt relief scheme of the government, should be ensured. (b) Write-off mechanism should be used rationally and only in deserving cases. (c) Staff accountability should not stand in the way of recovery endeavours. (d) Recovery team comprising the right personnel should be constituted. (e) Achievement linked incentives may be introduced. (f) Wherever convenient, the help of voluntary agencies should be explored. (P. 187-189). According to Madhukar (1995) staff accountability, among other reasons, have dampened the enthusiasm in pursuing write-offs and compromises. (P-228).

The effectiveness of the Recovery circle, formed by the bank personnel to find out the solution of problem loans, has been considered by Khutate (1995). Such mechanism enables the banks to
recover only a part but faster speed. The borrowers are taken into confidence and negotiations are kept open even after filing suits. Luxity on the bank staff cannot set in. (P. 31-33).

The Asian Age (1997, Sep.30) reported that the Reserve Bank of India considered the NPAs to be the major cause of concern faced by the entire banking industry. The RBI observed that 'the ratio of net NPA to total assets was 9.09 per cent' which needs to be brought down.

Tarapore (1994) while commenting on recovery through voluntary agencies observed that "... the experience both in India and in other countries, where voluntary agencies have provided yeoman service, shows that where these agencies have been able to provide assistance to borrowers, disbursements are much faster and by timely disbursements it is possible also to ensure effective loan recoveries." (P-1077).

Rangarajan while evaluating various factors relating to people participation in recovery opined, inter alia, as follows: (1) if the banks organise the poor borrowers in 'Self Help Groups', peers pressures can be used to ensure prompt recoveries; (2) the Self Help Groups and NGOs (Non Governmental Organisations) will be the 'externalisation' of a part of the credit cycle including recoveries; and (3) the concept of peoples participation has been experimented in Phillipines, Indonesia, Bangladesh and other developing countries successfully. (P-355).

Gupta (1994) while reviewing the measures of recoveries observed that the publication of the list of defaulted borrowers would help creating the right recovery climate by saying ".......these prohibitive measures coupled with existence of Tribunals in the Judicial System are likely to make the borrowers to strictly
adhere to the financial discipline of the bank thereby improving the climate of recovery of overdues and ultimately the health of the bank." (P-10). Jilani (1995) has rightly commented that such list of defaulted borrowers circulated by the Reserve Bank of India will help the lenders in selection and stop the borrowers in defaulting. In his words "unless loan default is treated with disincentive and discouragement, it would be difficult to create an atmosphere of prompt recoveries which is essential for orderly growth of banking." (P-9).
RESUME

Lending is a dynamic process. Principles of sound lending by banks are based on liquidity, purpose, profitability, security, spread and national interest. The fundamental basis for all lending operations has been viewed as confidence on the borrowers. Such confidence is again related to their character, capacity and capital. This naturally follows that information about the borrowers is essential. Unlike in the developed countries, such information is not readily available to the Indian banks.

So, the people responsible to lend requires a somewhat rare combination of qualities. Information, data and clear perception are essential for consideration of credit need, risk involved and end-use of loans involving credit-decision. It is to be ensured that borrowers do not use the funds in an indisciplined manner. There has been a marked change in bank lending in India. Lending has become more purpose oriented than security-oriented.

The main objective of a commercial bank has been viewed as to build a sound loan portfolio. Several factors such as legal, political, social, cultural, ethical, economic and psychological, influencing the lending-decisions are to be considered to achieve this goal.

The loans and advances, on the basis of securities, have been classified by authors as secured and unsecured. Such classifications have since undergone change in 1992 with the introduction of new norms of asset classification. The present classifications are based on whether the assets generate income or not i.e. performing or non-performing.
Reserve Bank of India has laid down objective basis for determining non-performing assets.

The authors have observed that the level of Non-Performing Assets (NPAs) have been around 21% - 23% of total bank advances in India against an acceptable range of 6% - 8%. Unless measures are taken against mounting NPAs, the situation will be unmanageable. This has been considered to be one of the major problems for the banking industry.

The NPAs can be reduced through recoveries of old dues and registering fresh NPAs. The constraints and reasons for low recovery are due to both external and internal factors. While the internal factors like defective loan process, impractical repayment schedule, ineffective supervision system, over and under financing etc. could be minimised; it is very difficult to overcome the external factors like unhelpful bureaucracy, present legal system, unwanted government, political or other interference.
2.3. COMMERCIAL BANK LENDING: Emphasis on Human Factors.

2.3.1. Project Financing: Procedures Followed, Lending Norms and Reviews Made.

The term lending institutions provide term loans while the commercial banks extend mainly short term facilities to meet the working capital requirements of the borrowers. However, the banks also provide term loans itself or in participation with term lending institutions. The involvement of commercial banks in term lending has increased over the years. It has been observed that joint appraisal by the banks and term lending institutions would facilitate timely sanction (Bhuchar, 1978).

Robinson (1951) while commenting on the type of bank loans observed that:

"the biggest single change in the commercial bank lending over the past two decades was in the growth of term loans." (P-177).

Narasimham (1991) suggested that:

"the commercial banks should be encouraged to provide term finance to industry, while at the same time, DFIs should increasingly engage in providing core working capital." (P-XXV).

The procedures followed, norms adopted and evaluations made by the banks/financial institutions for determining the feasibility and rationality of project proposals for various types of finance are enumerated hereunder:
**Procedures** followed include: (a) receiving the application from the promoters showing all the project data, (b) doing the project appraisal, (c) assessing the project viability (d) making project evaluations, (e) sanctioning of limits, (f) documentation, (g) disbursement of limits, (h) monitoring and follow-up. (ICAI, 1987; Pahwa, 1990; Singh & Singh, 1983).

**Norms adopted** for providing finance include the determination of (a) Promoters' contribution which varies with the location and type of industry, category of the promoters etc (b) Debt Equity ratio which at 2:1 is considered ideal; (c) Debt coverage which at around 1.5 times the debt, is considered reasonable; (d) Debt Service Coverage Ratio (DSCR), the most vital in determining the financial worth of a project which between 1.5 and 2 is taken as normal; (e) repayment period extending from eight to ten years with moratorium for two years; (f) percentage of loan syndication among the banks, financial and investment institutions; (g) loan convertability stipulations by way of equity participation as per government guidelines. (ICAI, 1987; Pahwa, 1990; Singh & Singh, 1983).

In other words these norms are the ideal criteria which are very important at evaluation stage. Project data are always compared and appraised in the light of these norms. Thus, Kuhn (1990) observed that:

"lenders and investors rely on the project's expected revenue stream, and often carry a share of the technical, commercial and political risks. Evaluation of the risk and the application of risk-limiting techniques thus are critical in project financing because of the heavy reliance on the project itself to provide effective debt service." (P-538)
It is interesting to note that lender always confronts with the risks at the time of project financing because of the uncertainty arising out of the evaluations and assessments of the same on future time scale. Usually, evaluations are made with the project data in terms of five aspects, commonly termed as five reviews namely, (a) financial reviews, (b) economic reviews, (c) technical reviews, (d) marketing reviews, and (e) management reviews. (ICAI, 1987; Pahwa, 1990; Singh & Singh, 1983).

Lending bankers while making aforesaid reviews at the time of project financing face at least nine distinct type of risks which according to Kuhn (1990) are: (1) input risk (2) technical risk, (3) timing risk, (4) completion risk, (5) market risk, (6) operating risk, (7) force majeure risk, (8) political risk, and (9) project risk. (P. 538-543). These risks appear to be minimum if risk limiting techniques, as rightly pointed out by Kuhn, are adopted in a proper way which in its turn minimise defects during credit appraisal. This is crucial because post sanction follow-up measures can in no way rectify the defects generated, out of ineffective risk assessment (Fos, 1988).

In order to lowering down the occurrence of distressed loan in the post-sanction period there is a need to improve project appraisal technique. This has been reflected in the report of the research committee of the Institute of Chartered Accountants of India, 1987 relating to project evaluation whereby quality and effectiveness of the appraisal system can only ensure performance oriented follow-up or monitoring. Thus:

"follow-up and monitoring effect is dependent on the quality and effectiveness of the appraisal system initially adopted in dealing with project assistance." (ICAI, 1987).
The evaluation / project appraisal is very significant and sensitive area irrespective of external constraints. It is only the efficient personnel who can make lending, a dynamic activity, more productive to the banking system. (Shankar, 1993). This has been revealed in the report of Tandon (1975) which not only has emphasised the improvement of personal skills but also stressed the development of internal operational process of the bank in relation to lending. Tandon, therefore, in his report has outlined several need-based modifications which in its turn constitute the new lending principle. The modifications, if introduced in the banks' internal working, would likely to enhance the lending efficiency in a dynamic environment having socio-economic, socio-political, socio-technical and socio-regulatory impacts and consequences.

a. Tiers through which a proposal is routed should be reduced and decisions given without delay;
b. Staff resources available with the banks are not always adequate to do justice to lending activities, which is a crucial area and failures would seriously affect bank profitability;
c. Total commitment of the top management is a prerequisite for successful implementation of system;
d. Discipline in the banking system would result in disciplined customers;
e. Speed in appraisal, decision-making and flexible handling of the norms should be ensured; and
f. Suggested extensive training facilities in credit appraisal for bank staff at all levels giving particular stress on information system.
So, in brief, lending as a dynamic process needs to be flexible in terms of internal working and personal attitude. Otherwise, banking system cannot accommodate the incoming challenges beneficially. Tandon has projected the issue unambiguously as follows:

"lending is a dynamic activity and banking system must always be ready to adopt itself to the challenges of new situations. .... unless banks reoriented themselves both in terms of their attitudes and their working, the new system, however well thought of, was likely to be a fruitless excercise." (P.52-53).

Banks for International Settlement (1995) has portrayed this issue by drawing inter-relationship among profitability, economic liberalisation and credit risk.

"If profitability is impaired by deregulation, banks may have an incentive to seek higher yields by making riskier loans. Yet the risk to which banks become exposed is ultimately a fundamental influence on profitability. Financial and economic liberalisation exposed previously viable non-financial enterprises to increased foreign competition and assessment of credit risk became more difficult." (P-150).

2.3.2. Follow-up, Control and Supervision of Advances:
Credit management functions of commercial banks involve multiple activities starting with credit appraisal of the borrowers to review, follow-up, documentation, disbursements, inspection, recoveries, rehabilitation, and ends up not so infrequently with write-offs. Loan proposals are accepted after careful evaluations on the basis of sound lending principles which is one part of the
credit process. The other and equally important function is to follow-up and supervise the end use of the fund to ensure that the stipulations during the lending decision process continue to hold good. Loans made on prudential basis should be repaid along with interest as stipulated. (Suneja, 1992; Singh & Singh, 1983).

Parmar (1995) narrated a recent study which revealed that out of nine independent or controllable variables considered, one single variable, that is number of follow-up visits by bank staff had positive correlation with recovery. (P-13).

Robinson (1951) remarked while describing about the supervision and handling of distressed loans that:

"it has been said that a bank never makes a bad loan, that loans get bad only after they are made. This is, of course, partly true; but the moral employed by it is important: banks cannot make loans and then forget them. A necessary part of their lending function is to keep abreast of the loans outstanding." (P-153).

Follow-up of advances has been defined by Singh & Singh (1983) as actions taken by the lending banks to ensure adherence by the borrowers to stipulations during sanction, to detect alarm signals and to take immediate remedial measures as an on-going process. (Singh & Singh, 1983).

Suneja (1992) observed that:

"when money has been lent, the bank can reduce the risk of not getting repaid by checking up on how the money has been used and what the customer is doing about repayment. In this context, monitoring, follow-up and supervision of borrowal accounts can reflect healthy fluctuations or show signs of
distress. Any diversion of funds and deviation by the borrowers from the terms and conditions stipulated by banks have to be noticed and timely action has to be taken." (P-582).

Alarm signals in respect of problem loans include operating loss, finance needed in excess of requirements, misutilisation / diversion of funds, stock held in excess of production requirements, mismanagement, inefficiencies etc. These weaknesses could be unearthed by comparing actual data with budget. (Singh & Singh, 1983).

Rodkey (1994) remarked:

"available evidence points to the fact that many losses which were sustained would never have occurred at all if there had been a routine set-up for following the progress of loans after they had been put on the books, instead of ignoring them until they become troublesome." (P-97).

Suneja (1992) observed that the recommendations of the study group to frame guidelines for follow-up of bank credit (Tandon committee report) and the working group to review the system of cash credit (Chore committee report), by and large have been accepted by Reserve Bank of India which has advised the lending banks to implement these as a part of its routine follow-up procedures.

Reserve Bank of India while narrating recovery climate of rural credit observed that the main reasons for low recovery performance of banks are incorrect identification of beneficiaries and activities, inadequate availability of proper infrastructure and the lack of adequate marketing facilities. The
'target' oriented approach has also compromised the quality of the programmes. Misutilisation of funds, by diversion or non-creation of assets, and selection of activities for financing without proper reference to its validity, have also been observed. (RBI Annual Report 1993-94).

Tandon (1975) observed that:

"bank has to follow-up and supervise the use of credit to verify first, whether the assumptions on which the lending decision was taken continue to hold good, both in regard to the borrower's operations and the environment and second, whether the end use is according to the purpose for which the credit was given." (P-40).

Tandon (1975) pointed out several areas outlined hereunder requiring close follow-up, supervision and control on loans made.

a) Terms of sanction stipulated by the commercial banks should include conditions for maintaining satisfactory financial status, ploughing back of profit, lowering payment of dividends and strengthening managerial competence. (P-41).

b) The borrower should obtain prior approval of the lending banks for material deviations beyond ten per cent of the figure shown in the projected fund flow statement. Moreover, the bank should be consulted in advance relating to matters having a material impact on the borrowers' fund flow. (P. 42-43).

c) Financial statements showing periodical operational data compared with budget, proforma as well as audited balance sheet and profit and loss account, and stock statements should be reviewed for analysing any change from the original stipulations as regards terms and conditions. Stock with the borrower should
be periodically inspected / audited; any material discrepancy disclosed would call for serious action. (P. 43-45).

d] Competence of the management should be appraised by way of inter-firm and industry-wise comparisons. Productivity ratios may be verified to ascertain labour efficiency, capital efficiency and fixed assets efficiency. The productivity level may be considered for ascertaining managerial efficiency. (P. 45-46).

e] Each bank should have a system of borrower classification to ensure better control over problem borrowers and rational base for charging differential interest (P. 46-47).

f] As regards satisfactory end-use of funds the lending bankers have to ensure on the basis of periodical operational data that the current ratio as well as respective shares of bank finance and the borrowers funds towards working capital gap have not changed adversely. (P. 47-48).

g] As regards sticky advances, it has been observed that with the gradual decline in profitability the borrowers' liquidity is eroded, which initially remains unnoticed to the bankers until further deterioration in profitability followed by losses leading to large shortfall in bankers security. Timely examination and discussion among the banker and the borrower may save many units from becoming sick. Once the alarm signals are read timely action could be taken by the banker, which may even intervene the borrowers' management. (P. 59-60).

Chore (1979) observed that there exist some inherent weaknesses in the information and monitoring systems of the banks as briefed hereunder. (a) Some of the banks take inordinately long time to
communicate the credit control measures to its operational level;

(b) There are inadequate arrangements for getting feedback information regarding the compliance with the instructions communicated, which are required for formulating further operational strategy; (c) detailed study of the large borrower accounts are not made, which is required for constant monitoring over its utilisation of limits and inventory build-up; and (d) Some of the borrowers maintain current accounts with other banks for diversion of funds thereby vitiating the credit discipline by the borrowers of the original banker. (P. 47-49).

A study on the recovery of priority sector advances by Parmar (1994) revealed that the guidelines issued by the Reserve Bank of India were not adequately followed by the banks. Neither the banks' branches were properly manned, nor their job-roles, functions and responsibilities were clearly defined. The organisational strength to ensure better recovery performance was lacking.

Fos (1988) observed that:

"the guidelines issued by the Reserve Bank of India for bringing about uniformity in approach and for proper co-ordination among banks and financial institutions with regard to appraisal of projects, monitoring of projects, rehabilitation packages of sick units etc. and for consortium advances are comprehensive and if these are followed meticulously and effectively by all banks including foreign banks, the incidence of overdues / irregularities can be controlled to a great extent." (P-188).
Bhuchar (1978) opined that as the role of commercial banks and financial institutions is complimentary to each other, coordination between them is essential; and pointed several areas outlined hereunder for better supervision, follow-up and control over facilities provided. (P-3)

a] The absence of an agreed basis for sharing term loans should be made good to ensure better credit planning. (P-5)

b] Joint appraisal would help better understanding of the project and timely sanctioning of loans. (P-8)

c] It should be ensured that the working capital requirements have been ascertained on a realistic basis and in consultation with the banks. (P-9).

d] Timely exchange of information and joint discussion on cost over-runs would ensure timely further contribution by the promoters. (P-9).

e] Joint in-depth review of the progress made towards implementation of the project would ensure taking up timely remedial measures. (P-9).

f] If otherwise justified the loans should not be delayed for pending finalisation of sharing of securities. Likewise, prior joint discussion should be made before initiating legal action or enforcing shared securities. (P-11,12,15).

g] During post-disbursement period mutual exchange of information would help coming across timely signals of incipient sickness of the borrower. Discussions on the joint periodical follow-up, inspection report covering the performance and weaknesses of the borrowers would help taking remedial measures. (P-20,21).
Rehabilitation of **sick units** requires concerted action by banks and financial institutions. As and when incipient sickness is noticed a package of corrective measures should be jointly decided and implemented without delay. \(P-24,26\).

Fos (1988) opined that **co-ordination between banks** is essential so that a defaulted borrower in one bank is denied finance in another bank. \(P-186\).

Parmar (1995) suggested the following measures for improving the **recovery of overdues**. (a) Separate trained field staff for effective credit management from appraisal through disbursement to follow-up should be identified in the branch level. (b) The quality of lending should be improved, which has a significant bearing on recovery. (c) Controlling office has to ensure strict adherence to the lending guidelines. (d) Computer based information system may be introduced. (e) Branch level efficiency measurement parameters on structural aspects should be developed. (f) Support of the local authorities has been considered essential for recovery oriented lending operation under various government schemes; the rural borrowers have to be educated as regards the end-use of credit. (g) Immediate action must be taken to debar the government from announcing further debt reliefs.

### 2.3.3. Credit Decision-making : Bearing on Non-Performing Assets.

Credit decision-making today is a complicated technique requiring professional skills to judge the promoter, the unit, the industry as also the economic and other related factors in an unbiased way. The person taking the credit decision should be well equipped with all the prudence required of him. This has been
reflected in the writings of Ramakrishna (1995) who opined that

**rational credit decisions result in quality loan portfolio.**

According to him:

"In this highly advanced technological world with the concept of a global village almost becoming a reality and with almost every factor inter-related with other factors, credit decision has become more complex and has evolved into a fine art. Today credit decision capacity of the appraiser depends on his capacity to perceive, forecast and analyse risk." (P-18).

In the context of the above any analysis of the operational efficiency indicates the significance of decision-making which again is the essence of improved loan portfolio. Operational efficiency of an economic enterprise depends on the operating decision-making mechanism (Isobe And Kearney, 1994) which in other way reciprocally determine the corporate climate. Right decision at the right time enables the banker to utilise market opportunities in an effective way. According to them, thus:

"In order to make decisions promptly and flexibly during rapid changes in the market structure, businesses should strive to reform their corporate climate and decision-making mechanisms which are liable to be conservative, bureaucratic and inflexible. ... Optimum profit centre systems must be established and operated, performance evaluation indices covering risks must be introduced. .... It is also necessary to eliminate organisational rigidity and bureaucracy, to simplify the decision-making system in order to enable quick responses to the market." (P. 146-147).
The outcome of effective decision-making, has a bearing on the operational efficiency, can be understood in terms of profitability index. Under Indian condition, it has been observed by Rangarajan (1993) that banks' profitability and efficiency are the results of interest margin, loan quality and overheads apart from other variables. Operational inadequacies and low profitability cannot be totally excused with social or statutory obligations of the banks, which have been rightly portrayed by Kanagasabapathy (1987) as:

"Profitability is an index of operational efficiency of any economic enterprise. ... Operational inadequacies and low profitability in the banking sector cannot be explained away on the premise of 'social obligation of the banking system' and the 'monetary and credit restraints' of the central banking authority." (P-127).

Therefore, operational inefficiency is a result of unproductive decision-making, which contention has been projected by Shankar (1993) as follows:

"correct and prompt decisions contribute directly to profits of a commercial enterprise. Decision-making is a combination of a series of acts of individuals at different hierarchical levels. ....assessment of the quality of decisions have to take into account several factors some controllable, some uncontrollable." (P-8).

Rangarajan also has corroborated this view and put much stress on the formulation and implementation of a need-based contingency plan in a systematic way in order to improve the productivity and efficiency of the banks.
"the thrust of these plans should be to attack low profitability and the high and growing non-performing assets so that rate of growth of earnings is accelerated. Greater emphasis should be laid on the quality of operations. Functional efficiency must be improved through soundness of appraisals, and the quality and speed of delivery of services. Management of maturity mismatches and interest mismatches and management of risks should be given due emphasis. Old practices and standards must be improved upon and banks should reorient their focus to risk-related considerations and costs of poor lending and investment decisions .." (P-989).

That the high and growing NPA culminate from the political as well as administrative interference on credit decision-making, could be ascertained from the narration of Narasimham (1991) pertaining to the contaminated loan portfolio of Indian banking system. In his words:

"...by far the most serious damage to the system and one which has contributed to the decline in portfolio quality has been the evidence of political and administrative interference in credit decision making." (P-30).

The importance of the portfolio quality could be evinced from the fact that interest and discount on loans and advances made, forming a part of the profit and loss account, always determine the financial health of the bank. (Bedi & Hardikar, 1979). This is also highlighted in the words of Patnaik (1995) as follows:

"the requirements of new norms of income recognition, capital adequacy, provisioning for bad debt and other reforms have
exposed the already **poor state of health** of the public sector commercial banks. The remedy may be worse than the disease if the public sector banks cannot improve their performance in terms of profitability." (P-25).

In other way, financial health of the bank is always influenced by the unrealised interest on any NPA because of the income recognition guidelines of the bank to portray its income. Madhukar (1995) thus rightly observed the following:

"A financially sound bank, it is by now well recognised, needs both to be profitable and to have a strong balance sheet, and this is as true of public sector banks." (P-225).

Contrary to this, Narasimham (1991) has critically reviewed the success story of Indian banks in terms of credit expansion. That the expansion in no way improves the financial health of the bank is revealed in his analysis, who emphatically concerns about the deterioration of the quality of loan portfolio of the banks.

"...this achievement has been brought about at the cost of a deterioration of the quality of the loan portfolio, the growth of overdues and consequent erosion of profitability." (P-29).

Kanagasabapathy (1987) also has observed the same and concluded that the major reasons for banks shifting towards lower average yield can be ascribed to increase in non-performing advances.

"The level of NPAs provides an important measure of the performance of banks, as it reflects on the quality of portfolio." (Economic Times, Calcutta Ed, Dated 4.11.95).
Suneja (1992) has attributed the declining profitability of banks as one of the major indicators of industrial sickness. In a bid to give emphasis on remedial measures, Rangarajan (1994) has outlined the major task before the Indian banks in terms of reducing the ratio of NPA to total assets. He has, thus, prescribed the restructuring of bad debts along with the formulation of strategic plans relating to improved recovery of the same.

The World Bank (1992) while depicting its policies guiding the financial sector operations viewed that:

"Managers of Financial intermediaries should be independent from government interference in their lending decisions; managerial autonomy of state-owned intermediaries is of particular importance." P.63.

Shivpuje & Kaveri (1998) observed that the main reasons for Non-Performing Advances being the most discussed subject as regards banking system are for its 'menacing growth' and resulting 'drag' on the viability of the banking system in India. In addition, they observed that the perceptions among the branch managers and credit officers about the significance of NPAs are 'yet to take roots'. They further observed that proper co-ordination with the borrowers, better information system and appropriate training, changed bank friendly legal system are some of the essential for better safeguarding the interest of the banks.

Rangarajan (1995) while dwelling upon the recent challenges before the Indian banking system suggested two areas which should be given the maximum importance. The areas according to him are:
"(a) keeping the level of non-performing assets as a proportion of total assets low and also pursuing aggressively strategies for the recovery of non-performing assets; and, (b) undertaking a massive programme of organisational regeneration, involving improvements in the level of managerial competence, raising the level of labour productivity, reviewing policies relating to training, placement and critically assessing whether the existing operating procedures and practices are adequate to meet the new challenges and opportunities." (P-89).

The Reserve Bank of India, it was reported, observed that the Indian banks are lacking in adopting quick decision-making approach 'to improve the credit-offtake in the economy'; and opined that 'the banks should have a quick decision-making process through an institutional mechanism by setting up specialised branches and look after customer satisfaction'. (The Asian Age, Sep.30).

Rao and Subramanian (1995) dealt with the quality of information. According to them:

"attributes of high quality information are: recency, relevance, accuracy and proper packaging of information." (P-29).

Information management is an integral part of decision phenomenon which occupies parmanent importance in the views of Balasubramanian, 1993 in relation to business process.

"Businesses are built around large volumes of transactions, which generate data to be captured, processed, retrieved and presented in various subsequent stages. Such data is the
basic raw material for 'information' to management; by themselves, however such disaggregated data is no more 'information' than say a ton of bricks in a house. This 'raw material' needs to be organised for a task, directed toward specific performance or applied to a decision. It is only after this processing that such data could become meaningful 'information'. (P-452).

Ghosroy (1995) has not only depicted the significance of decision making skills but also tried to identify several barriers which impede the individual to take right decision. According to him, there is much to be improved with regard decision-making capabilities of both the levels. The several reasons for such lack of decision-making have been identified as: (1) cultural barriers, (2) competence barriers, and (3) structural and hierarchical barriers. (P. 16-17).

The decision-making, according to Casson (1982), depends heavily on information. That information is vital in decision-making is reflected in a number of places which project the individual as the information processor (Blum & Naylor, 1968; Luthans, 1985). The significance of information has been rightly projected in the writing of Isobe and Kearney (1994) so far as financial service industry is concerned.

"the financial service industry has an inseperable relationship with information systems, so the industry's effective use of information systems will contribute significantly to an improvement in its performance. For financial institutions the 1990 will be a period in which to seek ways of utilising in a practical way strategic information systems. The extent to which they smoothly link
up with their accounting-related systems for administrative work, effectively support end-users strategic operations, and provide top management with timely, well-selected information necessary for decision-making, will be the keys to success." (P-148).

2.3.4. **Human Resources: Need for Proper Utilisation.**

Madhukar (1995) while reviewing the banking scenario of India, made an assessment of the human resources involved; and viewed that the human factor is one of the most critical factors which influence significantly the efficiency or otherwise of the banks. It is the human factor the utilisation of which makes the difference with the competitors. It is the people, and not the machines, who matters for the success. It has been suggested that the banks have to hone up their staff skills by changing the attitude; decision-making and creativity should be encouraged. Due consideration has to be given for certain amount of risk which is inherent in banking. Good performers need to be rewarded while penalising the non-performers. (P. 226-227).

Kolay (1995) considered human resources as most important an asset besides physical and financial resources to the corporate houses of our country for improving productivity. (P-18).

Narasimham (1991) while reviewing human resources in terms of organisational methods and systems considered, inter alia, the followings: (a) a review should be made of recruitment and promotion policies, skilled and talented and not the seniority be given preference; (b) role of training and human resource development should be given importance; (c) top management needs restructuring; and (d) administrative and political interference
affecting the autonomy of internal decision-making should be avoided. Further, weakened discipline has affected managerial functioning which needs to be strengthened. (P-88, 92-93).

Kulkarni (1994) while evaluating human resources in the banking system opined as follows:

"Since in a service industry like banking the raw material is men, human resource development emerges as the single most important element of the banker's strategic response to the challenge of the change. .... Each element of the environmental change calls for appropriate response in equipping the people who have to work in the new environment.

..... The critical success factor in the emerging world will be professionalisation meaning continuous, sustained building up of knowledge, education, skills and attitudes among the people in the banks and encouraging them and motivating them to employ all these in their personal growth of the organisation. (P. 66-67).

Asian Development Bank has given due importance to HRD which could be evinced from its Annual Report 1994, which reads as:

".... a systemic bankwide assessment of staff skills was undertaken during the year. An inventory of available and desirable professional staff skills was completed. ..... detailed work was initiated to develop department-by-department human resource plans." (P-125).

Kulkarni (1994) further opined that:

"..... good decision making presupposes good learning and experimentation is the best way of learning. Experimentation
is unthinkable without errors and mistakes and if the later
are treated as sin, the whole decision making process is
vitiated. Indeed, the environmental change would demand a
cultural change in Indian banking and would invite all round
strategic responses of which HRD responses will be the most
crucial." (P-67).

Gnanapragasam (1995) while reviewing the importance of human
resources observed:

"Organisation consists of individuals with divergent
background, who work together achieving a common goal. The
health and strength of an organisation depends on the human
resources which is the sumtotal and product of knowledge,
skills, talents, creative ability, and attitude of all the
individuals. In the context of changing environment in
technological, economic and allied fields, individuals and
organisations are conscious of catching up with the changes
and try to probe into the mysteries of nature to unravel the
intricacies and complexities in their attempt to exploit
them to their best advantage." (P-28).

Attuned with Gnanapragasam, Shankar (1993) observed:

"Banks function through human beings. The employee
contributes significantly in many ways to the development of
the bank. Their morale has necessarily to be maintained at a
high level, if their contribution is to be tangible." (P-8).

Rao (1994) reviewed decision-making, information process and
human resources and opined that:

"the managerial and institutional strengthening of bank is to
be reviewed. The banks are asked to meet the changing
environments in the light of growing global competition. Call is given to technological sophistication / expertise to carry out business progress. Managerial innovation and responsive service is highly desired. Result oriented and strategic management is to be evolved to support the decision making power of the institutions. Persons possessing clear concepts and ability to form policies are wanted in the service. Well supportive management information systems are in demand. In short, the banks are looking for brain reservoir to meet any challenge. Bankmen will not only reciprocate but will also undertake consulting assistance. (P-27).

Karandikar (1994) while reviewing information technology in Indian perspective opined that:
"the bottleneck is really manpower and the need to train people in the use of more and more sophisticated methodologies and tools... we need to increase the intrinsic quality of our manpower." (P-542).

Crockett (1995) while evaluating the risks associated with capital market innovations mentioned several risks such as (1) credit risk, (2) market risk, (3) liquidity risk, (4) operational risk, (5) legal risk, (6) systemic risk etc., and opined that:
"all economic activity involves risks. But if we can allow business and individual to focus on those risks they know and understand, while hedging those risks that are incidental to their main business activity, then efficiency will be improved and long-term investment will be more attractive." (P-297).
Bank for International settlements (1995) while reviewing the investors' reassessment of the assumptions underlying their global investment strategies opined that "perceptions of risk sharpened, leading to a shift in liquidity and currency preferences in favour of assets judged to carry less risk. Subsequent shifts in asset prices have only served to reinforce the need to be more conscious of fundamentals in assessing risk exposures. (P-3).

Rangarajan (1994) while evaluating Indian financial system remarked that:

"overall performance of banks cannot improve without paying attention to the strengthening of the managerial and organisational structure. Deployment, staffing levels and industrial relations, training and upgradation of skills are areas requiring clear programmes of action." (P-9).


"We are drifting toward a system where credit has no guardian"

and observed that present day banks allowed borrowers to control its risks. The banking industry is under stress and investors' confidence stained. The banks have liberalising credit policies by extending loans with risks too-high for a return too-low. The solution lies not in the structural reforms but in the cultural reforms. The efficient lending warrants thorough analysis, execution and documentation. Any irregularity in the credit process may lead to irrepairable problems, which arises as the credit professionals fail to perceive the critical job of lending. Quality of the lenders as decision makers should be exemplary; the achievement of this quality requires the unconditional commitment from the top management to everyone
involved in the process of lending. (P. 178-179).

Pusegaonkar (1994) reviewed the commitment level of bank employees and observed that:

"a sizeable number of bank employees are found to be lacking in desired level of commitment. Allienation, feeling of helplessness, loss of self esteem and pride and high anxiety are growing more rapidly amongst bank employees than ever before. However, very little systemic effort seems to have been made in the banks to reverse this trend. The bank management seems to have lost sight of the change in their work force in terms of composition, education level, values, motivations, aspirations and demands." (P-28).

While critically evaluating the qualities of Indian managers vis-a-vis overseas executives Chowdhury (1996) opined that:

"Our domestic managers have...been suffering from a peculiar outlook. They compare their performance with their rivals within the country instead of comparing themselves with the best in the world. At the same time they also hesitate to take decision independently and, in most cases, the common practice is to refer to higher authorities which contributes to the backlog." (P-34).

Spagnola and Spagnola (1994) observed while describing the effect of total quality management on commercial bank lending:

"TQM is a pervasive and unwavering commitment to quality through continuous process involvement by all members of the bank, not just lenders. It is a pattern of doing the right thing - right the first time, on time, all the time always striving for improvement and always satisfying the customer. TQM should be a philosophy and a set of guiding principle in
lending that represent the foundation of a continuously improving organisation. ..If used properly, these principles can turn a bank's lending arena into a competitive powerhouse." (P-164)

Gnanapragasam (1995) while commenting on human resource utilisation in an organisation observed that:

"the level of efficiency of individuals depends on psychological factors influenced by the organisation in terms of the positive or negative aspects of competition and co-operation." (P-29).

The individuals have been categorised by him into three groups i.e., (a) the complacent type, (b) the careful type, and (c) the creative type. For achieving the goals of an organisation every individual should be an asset. The creative types are easier to be motivated: while the complacent and careful types, who are the majorities, are difficult to be motivated. (P-29).
RESUME

Commercial banks including nationalised banks have been extending mainly working capital loans while the term lending institutions provide short or long term loans. However, this line of demarcation has since long faded. The commercial banks, at present, are actively engaged in providing term loans in addition to working capital loans.

As observed by authors, on receiving the loan proposals, the banks make financial, economic, technical, marketing and management reviews, before deciding the sanction thereof. While making the lending decisions, the lending banks confront several risks. As remarked by authors, in order to reduce problem loans, the banks not only need to be careful while taking lending decisions, but to be vigilant during the disbursement. Regular and effective follow-up during the post-disbursement phase is equally important to ensure the funds so lent. It has been recommended by authorities time and again that the banks should take timely and appropriate steps in case the sanction stipulations are violated or early alarm signals are read instead of ignoring them till such time as the loans become bad.

In cases where the term loans and working capital financing are shared by the banks and lending institutions, better co-ordination between them would ensure better control against overdues and other irregularities.

As viewed by authors, credit decision-making has become a complex job requiring professional skills. The person taking credit-decisions should have the required prudence.
He should be capable of perceiving, forecasting and analysing related risk involved. Prudent credit decisions result in quality loan portfolio and poor lending decisions generate NPAs. Moreover, political and administrative interference on credit-decisions need to be avoided. It has been viewed that a sound loan portfolio is a necessary precondition for a sound banking system.

Strength of an organisation depends much on its human resources. Prudent decision-making needs learning which in turn is dependent upon experience. The level of efficiency depends much on and is influenced much by the psychological factors of the individuals. So far commercial banks in India are concerned, environmental as well as cultural changes of the individuals are essentials for required strategic changes.
2.4. \textbf{FINANCIAL HEALTH OF NATIONALISED BANKS:}
\textit{A Consequence of decision-making.}

2.4.1. \textbf{Decision-making: Its Importance.}

\textbf{Elements of Decision-making:}

Decision-making has been defined by several authors as a process through which one makes a conclusion or decides a course of action, choosing between alternatives (Jones, 1957; Brim et al, 1962; Slovic et al, 1977; Chatterjee, 1980; Luthans, 1985; Kuhn, 1990). Weihrich and Koontz (1994) defined decision-making as:

"the selection of a course of action from among alternatives; it is the core of planning. Managers must make choices on the basis of limited, or bounded rationality." (P-219).

Decision-making has been defined by Hardwick and Landyut (1970) as a course of action or inaction to solve a problem. Thus:

"a decision is a course of action or inaction chosen to meet the requirements of a situation popularly termed the problem." (P-480).

Eden and Harris (1975) while analysing the nature and attributes of decisions, described the decision-making as a stimulus or a reaction to information. They emphasised that a decision should have the following salient features:

a) the decision may be changed should there be an intention of doing so;

b) the decision process should attempt to analyse the acceptability or otherwise of such change; and

b) the decision maker should be able to communicate and interact with other people.
Bexley (1987) analysed the factors leading to decision-making and opined that, had there been no problem to solve the need for taking decisions would not have arisen. Certain factors such as experience, authority etc. are essential to take decisions. Thus:

"Good decision making ...... would have to include past experience, the facts at hand, a feel for the situation, and the authority of the individual who is going to make the decision." (P-15).

The three decision making characteristics: (a) risk taking, (b) openness in decision making, and (c) group consensus have been evaluated for global and domestic strategies in a study conducted by Roth (1992). The study revealed that a simultaneous and holistic pattern of interlinkages between decision making characteristics and interpersonal strategy influence basic unit performance.

Fagino (1992) perceived decision as having three common elements: impact, risk and ambiguity. According to him, decision making has been categorised under three scenarios: (a) the approach-approach scenario, where all options are equally good, and the risk involvement is minimum, (b) the avoid-avoid scenario, where all options are equally bad, and the risk is at its minimum, and (c) the approach-avoid scenario, where the ambiguity is at its top as also the risk. The decision making becomes difficult for some people due to the lack of precision.

Weihrich and Koontz (1994) considered decision making in terms of risk analysis, decision trees and preference theory. They analysed the importance of decision making as:

"The factors that determine the importance of a decision are
the size of the commitment, the flexibility or inflexibility of plans, the certainty or uncertainty of goals and premises, the degree to which variables can be measured, and the impact on people." (P-220).

**Decision-making Classified:**

Decisions have been classified by different authors differently. According to Brim et. al. (1962) decisions have been divided into (a) those dealing with **formal properties** having abstract characteristics, such as degree of risk involved, the information available, being irrevocable or otherwise etc., and (b) those having **substantive characteristics**, like economic problems, administrative decisions, career choices, investment decisions and others. They have further classified the decisions according to properties involved such as (a) degree of certainty, (b) state of nature, (c) repetitive and non-repetitive, (d) cost involved, (e) revocable and irrevocable, (f) choice versus single stimuli, (g) between alternatives which can be compared on one, or more than one, significant classes of outcomes, and (h) according to occupational roles.

Kuhn (1990) narrated two kinds of decisions: (1) operational and (2) strategic. While Chatterjee (1980) classified decisions into (a) typical, (b) routine or unimportant, and (c) important, vital or strategic; Luthans (1985) categorised them into (a) personal and organisational and (b) basic and routine.

According to Adams and Robert (1959) the degree of certainty, which characterises the outcomes, has been considered as the basic property of decisions. They classified decisions under (a) the conditions of certainty, (b) the conditions of risk, and (c) uncertain conditions.
Attuned with Adams and Robert above, Weihrich and Koontz (1994) emphasised that almost all the decisions are taken under some uncertain environment; degree varies from relative certainty to great uncertainty. Moreover, there are always some risks involved in the decisions made. Weihrich and Koontz classified decisions into (a) programmed decisions applied to structured or routine problems, and (b) non-programmed decisions used for unstructured, novel and ill-defined situations of non-recurring nature.

**Process involved:**
Several authors identified phases of decision making process as being apparently differential as well as concomittant overlapping (Kawin, 1957; Beal and Joseph, 1957; Friedman, 1957; Brim et al., 1962; Bexley, 1987; Kuhn, 1990; Weihrich and Koontz, 1994).

Kawin (1957) analysed the phases leading to decision making process as (a) recognition and definitions of the problems, (b) preliminary observation and collection of information, (c) analysis of facts relating to the problem, (d) formulation of possible solutions and evaluations thereof, (e) trying the most promising solution, (f) verifying the workability of the solution, and (g) making necessary changes in the solution.

Beal and Joseph (1957) identified the following sequences of decision process: (1) the awareness phase, (2) the evaluation phase, (3) the trial phase, and (4) the adoption phase.

Friedman (1957) viewed the decision making steps as: (1) defining the problem, (2) knowing the alternatives, (3) identifying and weighing all the criteria, (4) calculating and choosing the alternative of the highest value.
Brim et. al. (1962) perceived the decision process as being linked into following sequences: (1) identification of the problem, (2) obtention of necessary information, (3) production of possible solution, (4) evaluation of solutions, (5) selection of strategy for performance, and (6) actual performance of an action or actions, and subsequent learning and revision.

Bexley (1987) considered the steps of decision making to include: (1) identification of the problem, (2) gathering the facts, (3) evaluating the possible alternatives, (4) going over the solutions, and (5) deciding upon the best solution. The steps involved in the decision process according to Kuhn (1990) were almost same to that of Bexley.

Weihrich and Koontz (1994) narrated the process leading to decision making as: (1) premising, (2) identifying alternatives, (3) evaluating the alternatives in term of objective determination, and (4) selecting an alternative, that is, making a decision.

**Decision-making Tools**:

Bexley (1987) elaborated the tools that may be used for decision making as: (a) decision by the individuals, (b) group discussion or committee decisions, (c) operational research, (d) simulation, (e) linear programming, (e) probability, (f) programme evaluation and review technique, popularly known as PERT, (g) statistical weighing and ranking process.

Devaux and Milgrom (1989) opined that new generation executives will make important and difficult decisions, which will be supported by constant access to up-to-date information base with the help of computers.
Kuhn (1990) opined that personal computers are invaluable for classical decision making. According to him, computers are indispensible support system in operational decisions, but can only facilitate making strategic decisions.

Kirkwood (1992) while narrating the methods of applied decision analysis opined as follows: (1) influence diagrams improve communication among managers and analysts about important dependencies in a decision under uncertainty; (b) algebraic formulation techniques enable precise representation of complex decision techniques; (3) utility functions model attitude toward risk taking among conflicting objectives which are conceptually sound; and (4) recently developed computer tools may be used for efficient decision making.

Weihrich and Koontz (1994) narrated the techniques of decision making and viewed that there are a number of modern tools for improving the quality of decision making under normal conditions of uncertainty; some of those are (a) risk analysis, (b) decision trees, and (c) preference theory. They ascribed the importance of minicomputers and microcomputers as an important tool for decision-making. Thus:

".... decision support systems use computers to facilitate the decision making process of semistructured tasks. These systems are designed not to replace managerial judgement but to support it and to make the decision process more effective." (P-212).

2.4.2. Decision-making : Cognitive Mechanism.
There have been plenty of authors who identified the effects of cognitive factors over the decision making behaviour of the individuals (Barron, 1953; Scott, 1962; Mason and Mitroff, 1973;

Schroder et al (1967) revealed that environmental factors and psychological attributes affect performance as well as provide insight into the Management Information System design. Lusk and Kersnick (1979) made similar observations over such influences.

Driver and Mock (1975) and subsequently Bariff and Lusk (1977) opined that while designing Management Information Systems and Decision Support Systems, cognitive manifestation of the decision maker should be given due importance.

Sage (1981) observed that the cognitive make-up of an individual is well exhibited during the course of his formulation, acquisition, analysis and interpretation of information or data for decision making.

An empirical study conducted by Mitroff and Kilman (1973) to determine the effect of cognitive factors on organisational decision making, revealed that the decision makers preferred decision processes which were compatible to their cognitive style. Mason and Mitroff (1973) observed individual differences relating to the types of information acquisition and way of data processing in respect of decision making.

Study conducted by Henderson and Nutt (1980) reflected that adoption prospects and risk perception were related to the executives' psychological make-up. Bass (1983) observed almost similarly and opined that individual personality competence and style affect organisational decision making.

Taylor (1984) analysed the role of psychological variables in decision-making and opined that:
"... interests, personality and motivation of decision makers .. exert a major influence on .. decision making behaviours." (P-101).

Study made by Hunt et al (1989) revealed the dependence of decision process on decision makers' personality, specially, his cognitive styles.

Stumpf and Dunbar (1991) referred Jung who:

"argued that peoples preferences for one of the two ways in which they perceive data, and one of the two ways in which they judge data, define four personality types: Sensing-Thinking (ST), Intuition-Thinking (NT), Sensing-Feeling (SF), and Intuition-Feeling (NF). ..... most people are believed to have preferred styles that they use more often, particularly in important, ill-structured decision situations." (P-1048).

The Metrobank Simulation referred by Stumpf and Dunbar (1991) revealed the followings:

"The results generally support the proposed relationships between personality-type preferences and the pattern of choices made in strategic decision situations. ... These biases may stem from the cognitive trails etched in the minds of individuals based on years of thinking which has been affected by one's personality-type preferences." (P.1062 -1063).

Markus (1983) analysed the causes of individual differences and observed that:

"Individuals are assumed to construct self-concepts from the information contained in their unfolding life experiences. As they do so, they gain an impressive base of knowledge, and
sometimes a genuine expertise, about their special abilities, achievements, preferences, values, and goals. ..... Variation in the context and organization of self-knowledge reflects significant and enduring differences among people in ........ perceptions, and actions." (P-543).

Ghosh and Ray (1992) pointed out the influence of the characteristics of the decision maker on his decision making process and the effect of cognitive make-up on his choice behaviour.

Lamiell (1992) while elaborating the second cognitive revolution, opined that:

"... studies of individual differences in the cognitive domain ... did yield reliability and validity co-efficients of magnitudes sufficient to licence ..... the assumption of temporal and transituational consistency seen to be critical to the very concept of personality whatever its substantive domain." (P-92).
RESUME

Decision-making has been defined by several authors as a process through which an individual arrives at a conclusion or decides a course of action from alternatives based on experience. Decision is a course of action or even an inaction while facing problems. It may be a reaction to any information.

As viewed by authors, risk, impact and ambiguity are three common elements of decision-making. For some people, lack of precision leads to decision-making difficult. Constant access to uptodate information has been considered the most important for effective decision-making.

The decisions have been broadly classified as individuals dealing with formal properties and those having substantive characteristics. The basic property of any decision is the degree of certainty in terms of outcomes. Nearly all the decisions are taken under uncertainty involving risks.

Sequences of decision process has been summed up by authors as the awareness phase, evaluation phase, trial phase and the adoption phase. The decision process has been linked to problem identification, accessing information, performance strategy selection, solutions evaluated, selecting the course of action and actual performance. The sequence follows subsequent learning and revision.

It has been well accepted by various authors that cognitive factors affect the decision-making behaviours of an individual. Psychological as well as environmental factors influence performance. Likewise, organisational decision-
making is dependent on the individual competence and style.

The individuals through unfolding life experience accumulate a knowledge base which in turn provides them with special abilities, achievements, preferences, values and goals affecting individual differences in their cognitive domain.
2.5. BANK MANAGERS AS DECISION MAKERS:
Emphasis on Psychological Factors.

2.5.1. Decision Making and Risk Taking.

2.5.1.1. Risk Taking: Concept and Influence on Decision Making.
Influence of risk in decision-making has been widely discussed both in the fields of finance and psychology, though in different perspective (Brim et al, 1962; Hertz, 1964; Taylor and Dunnette, 1974; Robichek, 1975; MacCrimmon and Taylor, 1976; Fuller and Wong, 1988; Majer et al, 1992; Khan and Jain, 1994; Weihrich and Koontz, 1994). In the words of Brim et al (1962):

A number of academic discourses have been made on risk in financial literature as summed up below.

Risk has been defined by Sundaram (1996) as the degree of volatility of potential outcomes. While elaborating the risk management in banks he opined that risk is inherent in any commercial activity; the risk cannot be eliminated totally but may be minimised. In his words:

"... a prerequisite to doing this effectively is to recognise the risk specific to that business activity. The intermediation services rendered by financial intermediaries like bankers are useful pointers to the risk management problems they are likely to encounter." (P. 52).

Sundaram (1996) further mentioned several risks such as: (a) Business risks like Liquidity and funding risk, interest rate risk, asset quality risk, currency and foreign exchange risk and (b) Control risks arising from operations other than lending, from faulty execution of policies and procedures.

"The .... major property is the degree of certainty which
characterises the outcome of the decisions. The term certainty applies to the condition when each alternative in a decision-making situation is associated invariably with a specific outcome; i.e., the outcome has a probability of occurrence of either 0 or 1. On the other hand, there is a condition of risk when each alternative is associated with outcomes whose probability of occurrence is less than 1 and greater than 0, and when the actual probability figure is known to the decision-maker. Finally, an uncertain condition exists when the probability of occurrence of outcomes is greater than 0 and less than 1, but when the actual probability figure is unknown to the decision-maker." (P-15).

Hertz (1964) analysed the importance of risk while selecting the alternative capital investment schemes because of difficulty in assuming the return thereon. These assumptions involved greater degree of uncertainty. While analysing risk perceptions of financial analysts, Mear and Firth (1988) observed similarly; and emphasised that expected risk and estimated return are the two most critical factors in investment decisions. According to VanHorne (1988) business risk should be considered as the coefficient of variation of the expected cash flow in relation to individual investment project over its estimated life; which would imply the standard deviation of the probability distribution over its estimated value. Hampton (1989) analysed the risk as a possibility of earning less from an investment than previously expected.

Rangarajan (1993) mentioned that understanding, thinking and perception about risk have undergone radical changes. While risk remained the volatility of the potential outcomes, the perception differed from individual to individual. According to him, thus:
"Risk management stands today in contrast to the intuitive and traditional methods of managing uncertainty. Theory of risk management does have its limitation but its value lies in the fact that by measuring what could go wrong and estimating its likelihood, firms and institutions have a better chance of making sensible decisions. Many of the financial institutions, particularly, the large global banks are today operating more as risk managers rather than a traditional banking institution." (P-1246).

Rangarajan (1994) critically analysed the risk associated with banks and advocated the necessity of effective risk management in banks. In his words:

"Hitherto, banks were mainly grappling with credit risk on their balance sheets, i.e. primarily in loan portfolios. With further developments in the money, credit and capital markets, banks will be exposed to new risks in a more substantial measure, for example, exchange risk and interest rate risk. Therefore, the task before the bank managements is to put in place adequate and effective risk management system." (P-931).

According to Dutt (1996) managing financial risks systematically and professionally is a difficult but unavoidable task before the banks. He mentioned a number of risk parameters associated with the day to day functioning of the banks. In his words:

"... Price risks like interest rate and exchange rate risk, liquidity risks like local and cross currency funding risks, counterparty risks like pre-settlement and settlement risk and the like are no longer text book terms but imply real
potential downsides which need to be dimensioned and monitored." (P.42).

Rangarajan (1996) while commenting on the means and mechanism for bank executive education viewed that:

"... Management of risks, which has assumed greater importance in the changing circumstances, requires not only the identification of new risks but also an understanding of the techniques that are available to cover such risks." (P.15)

The importance of risk management has been discussed at length in the Economic Times (dated 11.04.96) and concluded that:

"... Corporates can no longer afford to sit back and relax as without effective risk management measures, they might be rendered uncompetitive." (P.8)

While effective risk management helps financial institutions, irrational risk taking could be fatal for an organisation. This can be evinced from the study by Hylton (1993) on the liquidation of the world's largest real estate company, Olympia and York Developments Ltd.

The findings of an investigation carried out by Martinez and Courington (1993) into the causes of variation in loan performance among banks located in Louisiana, Oklahoma, and Texas, indicated that excessive risk taking played a crucial role in the troubled advances experienced by the banks. Such risk taking also contributed to the diversity in loan performance throughout the region.

An empirical study was conducted by Edmister and Srivastava (1993) to ascertain the extent of managerial control over loan
default risk of commercial banks as well as to analyse whether the causes of loan loss variance were due to managerial decisions or macroeconomic conditions. The study revealed the followings: (1) systematic bank dependent on loss rates over the times were evident; (2) a risk reinforcing rather than a risk adjusting management culture was confirmed; (3) significant relationships between individual and group loan losses and macroeconomic forces were indicated; and (4) it was concluded that loan losses were due to both (a) managerial preference to risk taking and (b) macroeconomic conditions.

Data on banks were used by Hooks (1992) to analyse how on the contents of the advances portfolio of a bank can be used for evaluating asset risk. The findings of the study emphasised the importance of risk taking over the recent bank failures.

Prather (1992) opined that creativity leads to ideas, and risk taking turns ideas into results. According to him, Risk taking should be seen as an integral part of the business process.

McKinley (1991) emphasised that the banks must manage risks better for their meaningful existence. The lending banks must chalk out a clear risk management strategy. The banks should first determine a credit culture which is best suited to the basic risk taking framework, before considering its advances portfolio and transaction management. The risk management strategy evolving from the priorities and credit culture should be consistent and well communicated.

A laboratory experiment was carried out by Chow and Haddad (1991) to test the effect of relative performance evaluation on the risk aversion of delegated investment decisions. Findings of the experiment are: (a) subjects under a relative performance
standard selected investments with significantly higher project-specific risk; (b) as environmental uncertainty increased, subjects under an absolute standard decreased their investment risks; (c) while subjects shielded from environmental uncertainty by a relative standard choose investments of approximately equal risk under conditions of uncertainty, both high and low.

Gunther (1989) conducted a study using data from the balance sheets of Texas banks to determine the influence of managerial risk-taking on the declining state of such banks. The findings indicated that risk-taking contributed substantially to the severity of the losses incurred.

Majer et al (1989) remarked that the managers and executives, who always select the easy and safe ways, cause irreparable damage to the organisation. The organisations should create such environments where risk-taking is encouraged and rewarded.

Nadler (1989) assumed that a bank earns 1\% on loans and advances, for each loan that goes bad, 99 loans must pay off in full; which explains why the banks are not the most profit-earning companies. He further indicated that when a bank's assessment of risk fails, the return on 99 good loans are eaten up by the losses arising out of one such bad loan. Nadler opined that the banks should not invest in a loan with risks greater than its expected return.

Harrison (1989) opined that risk management should have the objective of promoting a commitment to quality throughout the banking industry. He identified three major categories of risk management such as: (1) analysing financial risk, (2) controlling risks arising out of technical and commercial innovation, and (3) monitoring physical risk. Harrison observed that banking regulation and competition have also made risk management more
important by decreasing rewards for traditional policies maximising incentives for taking higher risks via innovations. This attitude, according to him, is the key to a bank's success.

The results of the experiment conducted by Ghosh and Ray (1992) indicated that with situational factors remaining constant, choice behaviour was influenced by risk and ambiguity. According to them, the evidence revealed that attitudes towards ambiguity and risk affect decision-making.

2.5.1.2. Risk taking and the Bank Managers.

Johnson (1994) while analysing risk in the context of project and investment appraisal observed:

"... Project risk need to be evaluated in its totality in a structured framework. Each risk factor has to be scored or graded based on its probability scores. The scores of such individual risk factors need to be aggregated so as to set off factors which lower and increase risks. A mature analysis of project risk by institutions should be comprehensive and total." (p-4)

He further viewed that "... capital budgeting decisions and project appraisal process are subject to many theoretically unsound practices. Many appraisers err on estimating and making relevant cash flows. A similar weakness exist in evaluating the risk of a project. The risks which matter are only relevant risks. Such relevant risks should also be measured and evaluated in totality." (p-4)

Godse & Chakraborty (1996) opined that all decisions, financial or otherwise, short term or long term, relating to input or output, have risk factors. The risk is the outcome of uncertainty
of future, impact of past and instability of present.

Godse (1996) viewed that financial sector in general and banks in particular are giving more importance to risk factors relating to credit, interest rate, pricing, environmental, legal, systemic, currency and reputation. Reviewing the survey on corporate risk management published by the 'Economist' he concluded that banks should realise all the main risks to which their funds are exposed.

According to him risk is inherent in banking business; and 'risk management is critical to the conduct of safe and sound banking activities', which is reflected in the action of Federal Reserve that has accorded top most weitage to 'risk management'. He opined that assessing and documenting risks during credit appraisal decisions will lead to better judgement.

Greenspan (1994) observed that basic business of banking is to measure, price, manage and accept various forms of risks - especially the credit risk. Improvement in risk measurement and risk-based pricing can be expected to have several beneficial effects on the performance of banks and in turn on the economy.

McNamara & Bromiely (1993) viewed that sufficient information is not available to assess the risk related to small loans, which form a major part of bank's loan portfolio. Such information is required to predict the future risk of commercial loans with certain degree of accuracy.

Morgan (1993) while reviewing the commercial loan portfolio with emphasis to risk management, came across several risk factors like industry risk, single-obligator risk, product risk, geographic risk, maturity risk and others; and opined that 'the
industry, its risks, and the company's role in the industry are basic to the credit analysis.

Koberg et. al. (1993) opined that the bankers have more incentive for pro-active decision and risk-taking, as they percieve slackened regulations and authorisation as regards to new products.

Risk taking by banks is encouraged by the current deposit insurance pricing system (Kim & Santomero, 1988). They viewed that risk-related capital regulation to be more effective, needs optimal choice of weight used. According to them, such weights depend on (a) expected returns, (b) their variance-covariance structure, and (c) the upper limit of the insolvency risk.

Mueller opined that the behaviour of lenders is related to the credit culture and values of the bank. The behaviour of the bank personnel, as viewed by him, reflects the risk taking attitude of the bank and its degree of excellence.

Segerstorm (1993) opined that performance indicators like 'interest-rate risk' or 'volatile liability coverage' reflect the weaknesses of banks by ascertaining the quantum of risk undertaken as against the risk-taking capacity of the banks.

Nanjunda (1997) in the course of analysing risk management in banks commented that:

"...... higher the risk, higher is the possibility of earning profits. But in pursuit of higher profits one should not build extensively high-risk assets as they may bring down the viability of the bank in the case of large loan defaults." (p-18).
Chakrabarty & Giri (1998) while exploring the management of credit risk opined that risk is concomittant with banking, which is fundamentally the business of financial intermediation and observed that:

"Indian banks have little idea about what is risk - when and where it occurs, how to measure it and how risk can be repelled or avoided - no doubt such technical inadequacy at the industry level is, in a way, making the banking business in a market driven environment, more risky as there is every possibility that, in the absence of any appropriate risk measurement and containment tool, even normal level of volatility would tend to cause abnormal damage to the portfolio." p.8.

2.5.1.3. Risk taking: A Psychological Review

In psychological literature risk-taking behaviour of individuals has been widely covered in the context of decision-making. In essence, a number of authors have attempted to draw relationship between risk-taking attitude and the goal-directed behaviour of the individuals.

Kogan and Wallach (1964) opined that risks play a crucial role in cognitive mechanism as well as in decision making, though at varied magnitude.

While providing the description of basic risk concepts with reference to decision making Khan and Jain (1994) opined that:

"The decision situations with reference to risk analysis in capital budgeting decisions can be broken up into three types: (i) uncertainty, (ii) risk, and (iii) certainty. The risk situation is one in which the probabilities of a
particular event occurring are known." (P-275).

Weihrich and Koontz (1994) while analysing risk viewed that all intelligent decision makers who deal with uncertainty would like to know the size and nature of the risk they are taking while selecting a course of action. They further opined that:

"In a risk situation, factual information may exist, but it may be incomplete. To improve decision making, one may estimate the objective probabilities of an outcome. On the other hand, subjective probability, based on judgement and experience, may be used." (P-207).

They further observed that attitudes towards risk differ with individuals, their position, and with the events they are associated. In their words:

"Some people are risk averters in some situations and gamblers in others, and some people have by nature a high aversion to risk while others have a low one." (P-210).

Risks have been considered as a cultural value by a number of authors in psychology (Brown, 1965; Teger and Pruitt, 1967; Wallach and Winh, 1968). Brown (1968) opined that the cultural norms influence the individuals to consider the decision problems as approach which is either 'risky' or 'cautious'. According to him, exchange of information through group discussion results in a risky shift, as cultural values induce individuals to revise their perception of risk values.

Several authors opined that basic motivating needs were closely associated with risk which in turn affect individual personality (McClelland, 1961; Atkinson, 1964).
Atkinson and Litwin (1960) indicated that individuals with low anxiety and high n-Ach are usually moderate risk takers.

Brim et al (1962) observed that the degree of certainty was the major property of decision-making, which characterised the decision outcomes. In this context, they observed three conditions namely, certainty, risk and uncertainty.

Brody (1963) analysed the effect of n-Ach and test-anxiety on risk taking behaviour in sequential decision making. He viewed that there were positive correlation between n-Ach and subjective probability of success in risk taking behaviour.

Brown (1965) remarked that individuals assume more risk for those factors which generate risk value.

Teger and Pruitt (1967) while analysing group induced 'risky shift' features, indicated that individuals believed themselves to be high risk takers than their peers. Cultural value attached to risk induced the individuals to take more risk. Such 'risky shift' would occur when the decision makers realised the degree of risk they were taking was either equal or below the average risk level.

Brockhaus (1980) analysed the risk taking inclination of individuals. He compared the regular managers with individuals who resigned their managerial assignments and started business ventures of their own. For evaluation purpose he used Choice Dilemma Questionnaire developed by Kogan and Wallach (1964). His analysis revealed no difference between the two groups.

Rao (1985) identified that the effective managers are usually moderate risk takers. He observed that such managers avoided higher risks because of their innate desire to compete by
adjusting their objective-oriented behaviour based upon historical data.

March and Shapira (1987) opined that several factors like mood, feelings and nature of problems being faced by the individuals, influence their perception about the risk. They further indicated that risk preference should be judged partly as a stable feature of individual personality.

MacCrimmon and Wehrung (1990) studied top-level business executives to determine the risk-takers and the risk-aversers. The findings of the study revealed that the most successful executives were the highest risk-takers, while the most experienced executives are the most risk-aversers.

Lark (1991) indicated that when an individual takes a risk in his workplace, the action may not be because of any conscious decision and rational process. Lark observed that the reasons for physical risk taking are due to several psychological and sociological factors, which again are deeply personal and related to one’s social environments. He opined that these deep-routed bases cannot be changed; but the behavioral motivation and influence can be modified.

Weihrich and Koontz (1994) emphasised the necessity of understanding the individual decision maker’s aversion to, or acceptance of, risk in order to give probabilities practical meaning in decision making.

According to Khan and Jain (1994), unlike risk the probabilities are not known under the situations of uncertainty. The distinction between risk and uncertainty has been made clear by the fact that variability is less in risk compared to
uncertainty. They further indicated that:

"Risk exists when the decision-maker is in a position to assign probabilities to various outcomes (i.e. probability distribution is known to him). This happens when the decision-maker has some historical data on the basis of which he assigns probabilities to other projects of the same type. Uncertainty exists when the decision-maker has no historical data from which to develop a probability distribution and must make intelligent guesses in order to develop a subjective probability distribution." (P-275).

Weihrich and Koontz (1994) precisely analysed the situations under certainty and uncertainty. In their words:

"In a situation involving certainty, people are reasonably sure about what will happen when they take a decision. The information is available and is considered to be reliable, and the cause and effect relationships are known. In a situation of uncertainty, on the other hand, people have only a meager database, they do not know whether or not the data are reliable, and they are very unsure about whether or not the situation may change. Moreover, they cannot evaluate the interactions of the different variables." (P-207).

Kuchhal (1988) while analysing decision making under uncertainty, used the terms 'risks' and 'uncertainty' interchangeably. He indicated that risk differs from uncertainty from statistical point of view, by way of the decision maker's concept of the probabilities or chances of outcomes. He emphasised that risk exists in a situation when the decision maker is capable of estimating the probabilities associated with several outcomes objectively based on historical data. On the other hand,
uncertainty exists in a situation when the decision maker makes educated guess to develop a subjective probability distribution, in absence of any historical data.

2.5.2 Need for Achievement: Concept and Influence on Decision Making.

Gooch & McDowell (1988) viewed motivation as a force within each person that may be linked to desire. They observed that 'dissatisfaction with one's performance becomes the catalyst that activates the individual’s desire to change'. In their words:

"Motivation has been defined in a variety of ways, including as 'a construct that intervenes between stimulus and response that fashions the nature of the response,' by a leading motivational specialist from the field of psychology." p.51.

Hermans (1970) while investigating the possibility of constructing a questionnaire to measure the achievement motivation, observed that in an unstructured programme there existed a high correlation between n-Ach and performance. The various aspects of n-Ach considered by him included (1) aspiration level, (2) risk-taking behaviour, (3) upward mobility, (4) persistence, (5) task tension, (6) time perception, (7) time perspective, (8) partner choice, (9) recognition behaviour, and (10) achievement behaviour.

Weihrich & Koontz (1994) observed that D.C. McClelland identified three types of motivating needs as n/Power, n/Aff, and n/Ach. Individuals having intense desire for achievement, have great need for success. They take a realistic approach to risk, prefer to analyse and assess problems, assume personal responsibility to get a job done, and prefer specific and proper feedback on how
they are faring.

Attuned with McClelland, Ranvor (1969) commented that n/Pwr, n/Ach and n/Aff have great impact in determining the social behaviour.

Atkinson (1953) observed that achievement motivation plays a vital role in accomplishing a particular job.

Atkinson (1957) like Hermans (1970) derived the relationship between n-Ach and performance. He further observed that the strength of achievement motivation determined the risk-taking propensity of individuals.

Green et. al. (1984) while reviewing the theories of motivation observed that these emphasise the cognitive aspects more.

Goddard (1991) observed that Kaizen, a Japanese word defining the philosophy of never-ending improvement, is equivalent to achievement motivation. A study revealed that 10% - 15% of the subjects tested were having this traits spontaneously and the characteristic is relatively stable accross different cultures. He opined that the value-based changes can be introduced in the workplace by introducing goals, responsibility, need for feedback and high anxiety.

An attempt was made by Cassidy & Lynn (1989) to develop a scale incorporating the factors of achievement motivation to measure (a) work ethic, (b) pursuit of excellence, (c) acquisitiveness for money and material wealth, (d) dominance, (e) competitiveness, (f) status aspiration and (g) mastery. Studies revealed that the measure of motivation has reasonable reliability and validity.
Holpp (1989) opined that achievement motivation is linked with Kaizen, a Japanese concept of never-ending improvement. According to him, these two concepts may be integrated to achieve fruitful results. Four characteristics of high achievement motivation i.e. goal setting, responsibility, the need for feedback, and high activity have been identified to achieve total quality improvement (TQI) programme.

Gupta (1989) reviewed the Enterpreneurship Development Programme in India where need for achievement has been considered as the primary selection criteria. Moreover, among the three major categories of training inputs, behavioral inputs emphasising achievement motivation was considered first.

Weiner & Kulka (1970) while exploring the association between n-Ach and casual approach opined that:

"Individuals high in achievement motivation are more likely to approach achievement-related activities than those low in this motivational disposition because they tend to ascribe success to themselves and hence experience greater reward for goal attainment." (p-19).

Zedeck (1977) reviewed the characteristics and process of motivation in terms of individual information processing behaviour and opined the need to assess the motivational system of the individuals so as to feel an understanding of such behaviour.

Nicholls (1984) viewed n-Ach as a psychological trait which helped perception about ability and ego in relation to job involvement and performance of individuals.
Atkinson & Reitman (1956) while reviewing the role of n-Ach on the performance, observed that there exists a positive relationship between the performance style and strength of motive. Fineman (1975) too viewed a positive relationship between n-Ach and performance of the managers in terms of perceived job atmosphere.

Atkinson (1965) and Johnson (1981) observed that achievement motivation appears to be significant in terms of decision-making process and more precisely influences the performance of individuals.

Siegel (1957) observed the relationship between the level of aspiration and decision-making.

Heckhausen (1967) noted that "psychological experimenters and testers have relied on no other motive to the extent which they have relied on achievement motivation to keep their subjects responding. Yet they induce it without having any control over its effects." P.1.

Brim et. al. (1962) while exploring the characteristics of the decision process viewed the motivational variables consisted of (a) level of drive, (b) desire for certainty, (c) personality traits and (d) the effect of unconscious motivational factors; and defined the motivation as 'tension or energy directed towards a goal'. According to them, motivational variables are directly related to decision-making process.

Spence & Spence (1966), on the contrary, commented on the works of McClelland, Atkinson and their colleagues that:

"...The distinction between task-attending behaviour and drive not only avoids the apparent inconsistency but
also reconciles the two sets of data." (p-318).

2.5.3. Anxiety: Concept and Influence on Decision Making.

Taylor (1953) observed that performance in a number of experimental situations, is related to the level of anxiety.

Kuhn (1990) while constructing a model of commitment for applying in commercial organisations noted that:

"Anxiety can be defined as a present state of mind caused by the possibility than an action of the past, present, or future might conflict with the environment at some future date. ...... Simply stated, anxiety is the anticipation of possible dissonance." (p-231).

He further viewed that individuals will be more creative with moderate anxiety; creativity is slowed somewhat by low anxiety and retarded substantially by high anxiety.

Spence & Spence (1966) while exploring the Manifest Anxiety Scale observed that the degree to which an individual admitted to characteristically exhibiting anxiety, would be related to the magnitude of his emotional responsiveness. They further noted that as predicted by the theory, the high anxiety groups were clearly superior in performance to the low anxiety groups and concluded that:

".... high anxiety Ss are more reactive to psychological stress than are low anxiety Ss and that the competing responses evoked by this emotionality may result in the former being inferior in performance..." (p-322).

Gooch & McDowell while examining the anxiety as a tool to create motivation among the employees remarked that the performance
could be enhanced if managers use anxiety as regards the purpose and identity of the employees. Further, they viewed that:

"Anxiety that produces dissatisfaction may stem from failure to maintain security, fear of a loss of self-esteem, guilt at not performing as well as others, failure to achieve expected standards or being unsuccessful in achieving career and personal goals."

P.53.

Tokunaga (1993) while viewing the consumer behaviour in relation to effective use of consumer credit, observed that unsuccessful credit users displayed greater anxiety about financial matters compared to successful users.

Rusch (1993) noticed that most difficult aspect of rehabilitating a business owner by the banker is his not implementing the required strategies. Research indicated the stress and anxiety are the main reasons for management failures.

Fagiano (1992) opined that anxiety comes from the inability to act; hence taking any decision will reduce one’s anxiety by at least fifty percent.

Withers (1989) opined that to gain control over anxiety, its causes should be identified and noted that confronting the problem helps reducing anxiety and concluded that chronic anxiety leads to decision-making difficult.

Farrant (1990) opined that by reducing the stress and anxiety of the workers, the condition of the entire organisation could be improved.

A research report conducted by the institute of management and
clerical medical investment group indicated that during the post
economic recession, anxiety has reached an all time high among
the managers (Anonymous, 1996).

Experiments conducted by Zinbarg & Revelle (1989) to test
individual differences in instrumental conditioning revealed that
such individual differences in performance were consistently and
strongly associated more with anxiety.

Darke (1988) studied the effects of anxiety on inferential
reasoning task performance and observed that anxiety and
performance were correlated.

An experiment conducted by Richards et. al. (1996) to examine the
processing strategy differences in anxiety, found support in
their hypothesis.

Murray et. al. (1996) viewed that "trait anxiety reflects the
static state of the individual ....... whereas state anxiety
measures the dynamic state of the individuals." p.112. They
further observed that:

"... one cannot be both anxious and relaxed
simultaneously, and a person also cannot be engaged
intrapersonally and interpersonally simultaneously." p.
112.

2.5.4. Percieved Social Influence : Concept and Influence on
Decision Making.

Lewis & Seibold (1993) while reviewing a theoretical framework
illustrating key sets of constructs and processes, both at
individual and organisation level, observed that social influence
in organisations influences the degree of fidelity and uniformity
in innovation process outcomes.
Schindler (1992) observed that reactions of others can critically influence the choice of individuals.

Rafaeli & Sutton (1991) conducted a study to generate a model of how social influence strategies that entail 'display of contrasting positive and negative emotions' bring about compliance in others. Results revealed that 'displayed positive and negative emotions' are control moves that help individuals influence the behaviour of others.

Study conducted by Wade et. al. (1990) revealed that both economic and social influence of the chief executive officers were responsible for the management crisis of the subject companies.

Thomas & Griffin (1989) opined that employees respond to their jobs as they perceive them, which in turn is shaped by social information such as comments, observations and similar cues provided by others; and their perceptions are influenced by information they receive from others.

Dubnisky & Loken (1989) reviewed the ethical decision-making with a model having its origin in social psychology, derived from the theory of reasoned action. They observed that one of the factors that affects ethical decision-making is perceived social influence.

McClelland et. al. (1958) explored the possibility of measuring skill in social perception and proposed a conceptual framework which enables analysing skills of social perception in theoretically relevant terms and distinguishes a number of variables which represent independent abilities in this regard; and concluded that:
"... that the nature of interpersonal sensitivity and its behavioral correlates is likely to vary with the developmental level of the person and to depend on the particular needs that may be activated in a given social context." (p-106).

Lamiell (1992) while reviewing the first cognitive revolution of personality psychology, quoted Cantor & Mischel:

"A categorisation scheme ..... allows one to structure, and and give coherence to one's store of knowledge about people, providing expectations about typical behavior patterns and the range of likely variation between types of people and their characteristic behaviors. Every social experience helps to fill out one's knowledge of the likely behavior and attributes of different types of persons. The resulting expectations, in turn, affect one's impressions of individuals." (p-91).

Zalkind & Costello (1962) explored the nature of the perceptual process and observed certain characteristics about the perciever. Accordingly, the perciever may:

(a) be influenced by considerations beyond his identification, responding to cues below the threshold of his awareness;
(b) respond to irrelevant cues, when required to form difficult perceptual judgement, to arrive at a judgement;
(c) be influenced by emotional factors, while making abstract of intellectual judgements;
(d) not be able to identify all the factors on which his
judgements are based;
(e) consider perceptual evidence coming from respected
sources than that coming from other sources.

They further observed that individual's perceptions are
influenced by the status, role played, visible traits, group
affiliation and social context of the perceived.

Judge & Ferris (1993) viewed a model of social influence in the
performance-rating process which employed a number of social and
situational influences and observed that demographic similarity
significantly influenced managers. Results indicated support for
the overall model and specific links within it.

Bhatnagar (1993) conducted a study for which data were collected
from bank managers in India. Results revealed that they could
effectively influence more their subordinates than their
superiors.

2.5.5. Job Involvement: Concept and Influence on Decision
Making.

Paullay et al., 1994 defined job involvement "as the degree to
which one is cognitively preoccupied with, engage in, and
concerned with one's present job" (p.224). They observed that job
involvement has two components: 'job involvement-role' and 'job
involvement-setting'.

Brown & Leigh (1996) viewed that "job involvement has been
defined as a cognitive belief state of psychological
identification with one's job (Kanungo, 1982; Lawler & Hall,

They studied the 'process by which employee perceptions of the
organizational environment are related to job involvement, effort
and performance'. Results of the study confirmed the relationship between the perceptions of a 'motivating and involving psychological climate' and job involvement. However, according to them, statistically significant effect of job involvement on performance was non-significant when effort was considered. In their words:

"In conclusion the study has demonstrated an important series of linkages relating psychological climate and job involvement to work performance and indicated that an organizational environment that is perceived as psychologically safe and meaningful is related directly to job involvement and indirectly to effort and work performance." p.365.

Study conducted by Reilly et.al. (1993) to establish the relationship between organisational commotion arising out of the attitudes of top and mid-level managers. Study indicated that such turbulence clustered into four dimensions which were differentially related to managers' attitudes. The dimensions included career loyalty and job involvement that were positively related to the growth of the organisations.

Wharton (1993) while studying the effects of emotion on individuals employed in the banking industry, viewed that the impact of job involvement on emotional fatigue differ depending upon whether the individual performs emotional labour.

Thompson (1992) observed partial support in the hypothesis that self-employed individuals have higher commitment and job involvement levels than those employed in organisations.

Elloy et. al. (1991) explored the suggestion of Robinowitz & Hall
that the relationship between job involvement and personal & situational characteristics as well as work results are almost equal. The combination of personal and situational characteristics and outcome variables appeared to display common variance with job involvement. The relationship between demographic, situational and performance outcome in relation to job involvement was also supported.

Shore et. al. (1990) evaluated a theoretical model to establish the differential relationship between organisational as well as job involvement attitudes in relation to behavioral intentions and observed that job attitudes are strongly linked to job intentions. According to them, there exists a positive relationship between job intention and job satisfaction.

White (1959) remarked that facing a challenging job successfully generate a sense of competence and pride about self which in turn produce pleasure in the job and thereby ensure job involvement.

While dwelling on the subject of job involvement Rambo (1982) observed that:

".... the level of job involvement is a factor that that relates to a worker’s motivational orientation towards a specific job. .... job involvement itself is also an outcome of work ..... the experience of success in a task will increase involvement." (pp. 127-128).

Lodahl & Kejner (1965) described the individuals with job involvement as the persons for whom the job is a very important part of life and who are affected very much personally by their whole job situation. They opined that 'job involvement is the
degree to which a person is identified psychologically with his work, or the importance of work in his total self image'. They concluded that:

"... job involvement appears to be factorially independent of other job attitudes relatively stable over time, relatively unaffected by changes in the work organization and related to the social measures of other workers." (p-26).

Attuned with Lodahl & Kejner, Saleh & Hosek (1976) referred Dubin who defined 'job involvement as the degree to which the total job situation is a central job situation'. They found the definition almost similar to that of Lawler & Hall:

"who defined it as the degree to which a person perceives his total work situation to be an important part of his life and to be central to him and his identity because of the opportunity it affords him to satisfy his important needs." (p-213).

While exploring the concept and measurement of job involvement Saleh & Hosek (1976) observed that a person is involved:

"(1) when work to him is a central life interest; (2) when he actively participates in his job; (3) when he perceives performance as central to his self-esteem; (4) when he perceives performance as consistent with his self concept." (p-215).

Shekharan (1989) reviewed the level of job satisfaction of bank employees in relation to job involvement and sense of competence; and opined that personal, job and organisational environment factors influence the job involvement of individuals at their
work-place, which in turn influence their sense of competence. Smith & Braunick (1990) studied the process model of Schuler in decision-making and job satisfaction, and viewed that job involvement functions as a moderator to participation-satisfaction relationship.

A study conducted by Keller (1997) showed that there existed a moderate effect on the relationship between job involvement and performance.

Reilly & Stroh (1997) conducted a study to understand the turbulent changes which affect the managers showed that among the causes, job involvement remained one of the most significant.

Discriminant validity of measures of job involvement, job satisfaction and organisational commitment was assessed by Mathieu & Farr (1991) and observed that:

"... the results of the present study, in conjunction with those of Brook et. al. (1998), provide evidence for the discriminant validity of organizational commitment, job satisfaction, and job involvement among employees sampled from three different populations and as related to a wide variety of correlates." p.129.

2.5.6. Assertiveness: Concept and Influence on Decision Making.

Koberg et. al. (1993) reviewed the perceived environmental and structural influences on assertiveness and rationality of banks and observed that those are positively related on its strategy-making process.

Ireland et. al. (1992) opined that assertiveness training increases self-confidence and self-perceptions of managers, who
in turn will contribute effectively for long-term survival of organisations in competing not-so-friendly global environment.

Ash (1991) viewed that assertiveness is effective for the performance of supervisors provided they know what assertiveness is and situations what call for assertiveness. He remarked that the managers must distinguish between assertiveness and aggressiveness. He observed that quiet and soft-spoken individuals can be as assertive as those with forceful personalities. He opined that assertiveness can be a key factor in determining how one performs on the job.

According to Er (1989) assertiveness may be of five different types: (1) basic, (2) empathetic, (3) escalating, (4) confrontive and (5) I-language. He remarked that effective assertiveness behaviour can generate satisfactory relationships in the workplace.

Lampton (1990) viewed that assertiveness is related to the attainment of success in an organisation.

Devaux & Milgram (1989) opined that frontline managers making important and difficult decisions require training in assertiveness.

According to Rathus (1973), rational assertive behavior ensures confidence and increased tolerance for negative feedback. He advocated the need for training in assertiveness to make it socially desirable.

According to Anonymous (1994) assertiveness is something that no successful manager can do without, but it involves more than just exhibiting a forceful attitude.
Chan (1993) assessed the components of assertiveness using Rathus Assertive Schedule and observed that non-assertive responses correlated with depressed mood.

Assertiveness meant standing up for oneself without stepping on others as viewed by Janice (1994). According to her, assertive individuals are polite but insistent while exuding self-confidence.

Sitley (1997) presented several suggestions on being assertive while surviving in the workplace and viewed that being capable of expressing oneself in an assertive but non-confrontational way is the key to success.

Jentsch et. al. (1996) examined the effects of negative events related to the purpose of an assertiveness training programme of airlines pilots. Results indicated a linear relationship between the negative events and assertive performance of the pilots. They opined that "it is generally accepted that non-assertive communication is a casual factor in many accidents involving commercial pilots" (p.115).
Influence of risk on decision making has been widely discussed both in the field of finance and psychology by several authors. Risks play a crucial role in the cognitive domain which in turn affect decision-making. On the other hand, attitude towards risks differ widely with individuals, while risk remained the volatility of the future outcome. Thus, the risk is the outcome of uncertainty of future, impact of past and instability of the present.

The risk associated with banks has been analysed by various authors. Expected risk and estimated return are the two most critical factors in investment decision-making. Managing risk professionally is a difficult but unavoidable factor before the banks. While rational risk-taking has been widely accepted as a necessity, irrational risk-taking could be fatal for the financial health of an organisation. Excessive risk taking results infected portfolio, as has been experienced by many banks. Though risk-taking is seen as an integral part of banking activities, risk management should have the priority for balanced loan portfolio in the banking industry. The banks should not invest in a loan with risks higher than its expected return.

The decision-making pertaining to risk analysis has three basic elements namely - uncertainty, risk and certainty. While in case of certainty individuals are reasonably sure about the outcome of a decision, in a situation of uncertainty they have to rely on insufficient database and are unaware of the future outcome.
Since risk is inherent in banking and business, proper risk management is critical for sound and safe banking system. Several authors have opined that the basic activities of banks are to measure, value, manage and accept various forms of risks - especially the credit risk. The banks should realise all the relevant risks to which the portfolio is exposed to.

It has been opined that risk perception in Indian Banking Industry is not much commendable. The attitude of the bank personnel reflects the risk taking attitude of the concerned bank and the degree of excellence achieved. As viewed by authors, it may be true that higher the risk, higher is the possible profit, but it is equally true that high-risk portfolio may bring down the viability of a bank.

According to several authors, risk and achievement motivation are closely associated. Individuals with high achievement motivation and low anxiety have been considered as moderate risk-takers. It has been further pointed out that the effective managers are usually moderate risk-takers. Thus, the psychological and sociological factors influence physical risk-taking.

The n-Ach is a desire to do a job with a standard of excellence. It is viewed as a force within each individual that may be linked to desire. Achievement motivation play a vital role in accomplishing a particular job. Authors have viewed n-Ach as a psychological factor help individuals
perceiving their ability and ego pertaining to job involvement and performance.

Studies revealed that there exists a definite relationship between n-Ach and performance and n-Ach decision making. The n-Ach in its turn affect risk-taking behaviour.

Several authors have opined that the level of anxiety and performance are highly corelated. Anxiety, as a present state of mind, is the anticipation of possible discord in future. It has been observed by the authors that the degree of anxiety is related to emotional responsiveness of individuals. Chronic anxiety leads to decision-making difficult. Anxiety stems from the inability to take a decision, hence anxiety is reduced once a decision is taken.

Authors have indicated that there exists a clear relationship between anxiety and individual differences in performance. It has been viewed that while individuals with anxiety are rational decision-makers, individuals with low and high anxiety are less and lesser rational decision-makers respectively.

The perceptions of individuals are influenced by the status, role play, apparent traits, group affiliation and other social context of the perceived. Authors have viewed that social influence perception influences the individuals. They respond to their jobs as they perceive them which in turn is shaped by social information such as comments, observations and cues provided by others.

Authors have indicated that there exists a relation between
social influence and performance of the individuals; and social influence affect decision-making.

**Job involvement** has been defined as the degree to which individuals are identified psychologically with their jobs or the importance of jobs in their total self-image. Facing a challenging job successfully generates a sense of competence and pride which in turn produces pleasure and thus job involvement is ensured. Thus, an individual is involved with his job when the job is central to his life interest. The job involvement itself is also an outcome of job; a job well done induces further job involvement.

The authors supported a moderate relationship of job involvement over performance outcome. Job involvement functions as a moderator to decision-making. However, it has also been viewed that the effect of job involvement on performance was not significant when effect was considered.

**Assertiveness**, as viewed by authors, is standing up for oneself without hurting others. Assertive individuals are polite but insistent and self-confident. However, the line of distinction between assertiveness and aggressiveness has been made very clear.

The authors indicated that there exists a linear relationship between the assertiveness and performance outcome. The assertive behaviour generates satisfactory relationship in the workplace. Managers taking important decisions need to be assertive.