CHAPTER - I

INTRODUCTION

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THE PROBLEM

In the logistics of growth mechanism, what is needed is institutionalisation of savings and investments. An efficient mechanism for the rational allocation of investible resources through the operation of financial intermediaries has to be deliberately fostered to cater to the needs of the increasing tempo of industrial development. With the dawn of independence in 1947, India accorded immense significance to industrial development and for this purpose, efforts were made to establish the machinery of development banks for supplying term finance to industry. The first step in this direction was taken with the establishment of Industrial Finance Corporation of India (IFCI) in the year 1948. Since then, Government of India has paid continuous attention towards fulfilling financial needs of the industries and as a result, a very sophisticated structure of financial institutions both at the national as well as state level, has emerged. At present, the country is being served by over 60 such institutions with a wide branch network.
The State of Gujarat came into being on May 1, 1960. It is situated on the West coast of India between 20.1 and 24.7 degrees North latitude and 68.4 and 74.4 degrees East longitude. It is bounded by Arabian Sea on West, West Pakistan in the North-West, Rajasthan in the North-East, Madhya Pradesh in the South-East and Maharashtra in the South. The State, has according to 1991 census, an area of 1,96,024 sq. Kms. and population of 4,11,74,060 representing 5.97 % and 4.88 % respectively of the area and population of the Indian Union. The State is divided into 19 Districts, the territories of which formerly had constituted three major regions of Kutch, Saurashtra and Gujarat. Of the total 19 districts, 11 districts are classified as backward districts of which the Dang district is classified as 'A' category; The Panchmahals, Bharuch and Surendranagar as 'B' category and the Sabarkantha, Banaskantha, Mehsana, Bhavnagar, Junagadh, Amreli and Kutch as 'C' category districts. These districts occupy 68.1 % of total land area, covering 48.7 % of the total population of the state. There are only 20.7 % of the total registered factories in these districts. Thus, the State of Gujarat, metaphorises the paradox of poverty amidst plenty in terms of industrialisation and development of the state.
The State inherited some of the public enterprises since it came into being as a result of bifurcation of the bigger bilingual Bombay State, renamed with the word 'Gujarat' prefixed to each of them. The Gujarat State Financial Corporation was established on 1st May 1960, the day on which the State was born. In pursuance to the provisions of the State Financial Corporations Act of 1951, like other financial corporations, GSFC, was also enjoined to undertake stupendous task of the industrial development of the state, by supplying long-term assistance to the industrial units. Establishment of the corporation in the state was certainly an action in the right direction. But equally, rather more, important is to ensure the goal-oriented performance in terms of its organisational effectiveness and operational efficiency as a development bank. The present work is an outcome of this concern.

THE PRESENT STUDY

The primary objective of the study is to examine organisational effectiveness and operational efficiency of the GSFC as a development bank. The operations of the corporation have been studied for a period of 29 years — from 1960-61 to 1988-89. To appraise the role of the corporation in relation to its organisational matters, an extensive field work was undertaken. The officials of the Corporation at Head Office, Regional
offices, Branch/District offices were personally interviewed. Majority of them were good enough to spare time for personal discussions as also to spare copies of the literature. Some were found to be reserved and were hesitant to supply the literature in the name of confidentiality. The branch office of IDBI at Ahmedabad was also visited and discussions were held with the officials. In addition, frequent informal personal interviews were also held with the loanees of the corporation in order to consider their views about the modus operandi adopted by the corporation.

The researcher being an external analyst, the working of the corporation was analysed largely on the basis of statistical data given in the Annual Reports. All the annual reports were made available by the corporation except the First Annual Report, which was also not found at the corporation. In support to this, detailed study — Reports On Development Banking in India — published by IDBI for the years 1979-80 to 1988-89 has helped much. All the ten reports were supplied by the IDBI. In so far as the interpretation of the facts, the treatment of the subject and the conclusions drawn are concerned, all endeavour have been made to maintain objectivity.
The followings are the main objectives of the study:

1. to review the rationale and motives underlying State Financial Corporations;

2. to analyse the organisational and managerial efficiency and effectiveness, in particular, its top people;

3. to critically examine the modus operandi adopted by the corporation;

4. to assess the role played by the corporation in the industrialisation process of the state considering various parameters;

5. to evaluate the financial performance through different accounting and statistical tools and techniques;

6. and finally to draw the profile of the corporation as a development bank.

In essence, the basic idea kept in mind while evaluating the performance of the corporation, is to find out whether the corporation has merely acted as finance supplier or has had a broader coverage transcending in promotional, innovative and entrepreneurial roles.
THE HYPOTHESIS AND MAJOR QUESTIONS

The general criticism levelled against the majority of the development banks of the country, is that they failed in fulfilling the promotional and developmental roles expected of them. Keeping this general remark in mind, the study is based on the following hypothesis:

The GSFC has given insignificant attention towards its developmental functions, whereas, the promotional activities have attracted, a prosaic treatment.

Various questions emanating from the above hypothesis form the basis of the present study. They are:

1. Do the SFC Act provide sufficient autonomy required for better performance of the corporations?

2. Do the SFCs and Banks function in a co-ordinated way? Is there a scope for better co-ordination mechanism?

3. Do the corporation has an organisational set-up commensurate with the operational requirements?

4. Is the managerial ethos of the corporation in tune with their functional requirements and avowed objectives?
Do the corporation have developmental outlook in contrast to patronage psychology?

Does the top management of the corporation have broader vision than its top executives?

Have the corporation been recruiting and grooming the human resources who can undertake the responsibilities of a development bank?

Do the corporation have strong financial base to discharge its term-lending functions effectively?

How much has it succeeded in achieving self-sufficiency for its financial requirements over a period of time?

Is the financial strength — short-term and long-term — of the corporation appropriate, considering the developmental character and promotional role of the corporation?

Has there been adequate and satisfactory recycling of funds?

Does the evaluation of the projects done by the corporation turn out to be incisive, objective, constructive and qualitative?

Has the corporation succeeded in finding, developing and financing entrepreneurs having vision and innovativeness?
14: Is the corporation on the lookout to simplify its procedure in the interest of clients?

15: Has the corporation been providing sufficient importance to train the loanees along with providing term finance?

16: Do the corporation give due attention to monitor the progress of the units as a part of post-sanction activity?

17: What role has the corporation played in promoting the growth of new, small and technocrat entrepreneurs in the state?

18: Do the corporation give adequate attention for the removal of regional disparity?

19: Has the corporation succeeded in promoting non-traditional, sun rise industries?

20: Can the corporation claim to have promoted enterprises that would help distributing income and thus reduce unemployment among different sectors of the state?

21: Has the corporation earning adequate profits keeping in view their social obligations?

22: Has the corporation really acted as "engines of growth" or "gap fillers"?
CHAPTERISATION

The study begins with the present chapter of introduction which concentrates on the broad framework of the study. It covers the need, objectives, hypothesis, major parameters and questions answered in the study.

In the second chapter genesis of state financial corporations have been explored with particular emphasis on their chronological account. The chapter also includes a separate section on the SFC Act and the regulating agencies. The role played by the State Government, Central Government, the RBI and the IDBI, in the operations of the corporation has been reviewed. At the end of the chapter, an attempt has been made to review the operations of SFCs. The exhaustive treatment is out of the scope of the study.

Diverse organisational and managerial issues form the subject matter of the third chapter. It includes study of organisational structure of the corporation, its appropriateness and the managerial aspects in particular Governing Board, Executive Committee and its top people. Chapter four covers existing system and practices related to management of human resources of the corporation.
In the fifth chapter, an attempt has been made to study financial structure of the corporation. The long-term and short-term financial strength has been analysed using different ratios, T-test etc. The main focus of the sixth chapter is to study the existing procedure adopted by the corporation for loan assistance, to evaluate it critically and to find out and suggest refinements.

The seventh chapter covers detailed quantitative and qualitative analysis of the operations of the corporation. An attempt has been made to study the profitability of the corporation in the eighth chapter. Various tools like - common - size statement, ratio analysis etc. have been used. The study ends with a brief resume of issues/problems raised and suggestions made in order to improve organisational effectiveness and operational efficiency and thus achieve the goal, expected of a development bank.