CHAPTER 1
INTRODUCTION

Needless to emphasise that in a developing economy and to every extent in a developed economy, banking industry plays an important role in regulating the finances of the corporate sector. The State Bank of India, (SBI) is one such banker which have successfully implemented various scheme introduced by the Reserve Bank of India in developing banking habits in the masses, including the rural masses. The SBI has been helping the industry both small and big industries in the country in many ways - such as financing of the corporate projects, undertaking and subscribing the public issues, foreign exchange requirements, rendering the technical and advisory services. The State Bank of India, the premier banking institution in India, has all along been playing an important role in the economic development of the country and has been a trend setter and pioneer in several areas. In terms of branch network, it is the largest commercial bank in the world and is among the top fast growing banks. Its position in the area of traditional banking over a period of time the SBI after establishing the State Bank started entering the areas of merchant banking and leasing subsidiary, a mutual fund, a housing finance subsidiary etc.. To overcome the objectives for which SBI was set up, it had an Industrial Technology Group and an Export Promotion Fund nearly few years ago. The setting up of these funds shows the expert to which the bank's commitment to medium and small scale clients and export promotion efforts are going to be achieved.
The history of State Bank of India is a reflection of the history of organised banking in the country. The origins of the State Bank of India back to 1806 when the Bank of Calcutta (latter renamed Bank of Bengal) was established. This was the first of the Presidency Banks to be set up in British India to meet the needs of the mercantile community. This was followed in 1840 by the Bank of Bombay which catered to the requirements of Western and Central India. The Bank of Madras, the third such Bank to be established, operated in the Southern Part of the country.

These three Banks pioneered the spread of banking in the country and until the 20th century, these remained as the only primary Banks to be established and conducted as corporate entities within a proper legal and organised framework. In 1921 the three Banks were amalgamated to form the Imperial Bank of India. About 34 years later, controlling interests in the Imperial Bank of India, were acquired by the Reserve Bank of India and the Bank became the State Bank of India, under the State Bank of India act, 1955. During the process of nationalisation, the private ownership was retained, albeit on a minority basis, to preserve and continue the infusion of the commercial spirit.

The Imperial Bank of India was established in 1921 by the amalgamation of the three Presidency Banks
viz. the Banks of Bombay, Bengal and Madaras with their 70 branches, under the Imperial Bank of India Act. 1921. It was originally intended that the Imperial Bank would be gradually developed into a full fledged Central Bank. 1926, however, the Hilton Young Commission recommended the creation of a separate bank named the Reserve Bank of India to perform central banking functions so as to leave the Imperial Bank of India entirely free to perform commercial banking business. It also managed the public debt of the Government of India, provided the machinery for managing the issue of Government bonds and acted as a bankers bank with the leading banks in India including the exchange banks keeping a portion of their cash balances on deposit with it and provided remittance facilities to the other banks and to the public at rates which were controlled by the Government.

After the establishment of the Reserve Bank of India in 1935 the Imperial Bank ceased to function as the sole banker to the Government, however, at those places where the Reserve Bank had no office, it acted as the Reserve Bank's representative to handle Government banking operations and maintain currency chests and small coin depots on behalf of the R.B.I.

The Imperial Bank of India occupied a unique place in the banking system of the country. With the vastness of its resources the high liquidity of its
assets and the great profits it played a leading role. In the money market of the nation. Inspite of its important role in the Indian banking system it was not free from criticism on account of its close alliance with the British commercial interests, free use of Government funds, racial and political discrimination, misuse of funds and predominantly non-India management. The Government of India appointed Rural Banking Enquiry Committee to study various points of criticism. The Committee made many recommendations to improve the functioning of this Bank. In February 1951 the Reserve Bank of India organised with a new to formulate the future policy, procedure and other steps to be taken by it in relation to agricultural credit conference of certain cooperators, economists and Registrars of Cooperatives. The conference concluded that the formulation of such policies difficult due to shortage of actual information on the credit needs and borrowing practices in rural areas. As a result, it recommended conducting of an All India Rural Credit Survey. Accordingly in August 1951 a committee of Direction with Shri A.D.Gorwala as Chairman was appointed.

The Government of India accepted the recommendations of the Committee and the decision to establish the State Bank of India was announced in the Lok Sabha by Sri C.D.Deshmukh, the then Finance Minister. In accordance with this decision the State Bank of India Bill was moved in the Lok Sabha on the
16th April, 1955 and it was passed by the Parliament and received the President's assent on May 8, 1955. The Act came into force on 1st July, 1955 and from this date the whole of the business of the Imperial Bank was transferred to the State Bank of India. All the assets, liabilities and establishment were also transferred to the State Bank of India.

OBJECTS OF THE STATE BANK OF INDIA

The Preamble to the State Bank of India Act, 1955, merely states "the extension of banking facilities on a large scale, more particularly in the rural and semi-urban areas and transfer of the undertaking of Imperial Bank of India", as the main objective of establishing the State Bank of India. The All India Rural Credit Survey Committee outlined the main objective and the role of the State Bank of India. According to it this State partnered country wide banking institution is to be "charged with and carry out the positive duty of endeavouring to do its best to help the development of rural and co-operative banking. It is expected to discharge this duty by several means open to it including principally the effecting of arrangements for the readier and cheaper remittance of money, especially in relation to the relatively undeveloped areas which have been neglected by commercial banks and in which, without such facilities, no development of rural and co-operative banking is possible".
It is required (i) to expand itself not only up to the district headquarters but beyond them i.e. up to the sub-divisional level,

(ii) to convert non-banking treasuries into banking treasuries.

(iii) to increase significantly the facilities of cheap and ready remittance of money, especially in undeveloped areas,

(iv) to provide responsive support to the co-operative structure connected with credit and economic activity, especially marketing and processing.

(v) to open maximum branches in rural area and to develop banking activities and different facilities to the rural sector because India's economy is predominantly based on rural development, and

(vi) to promote effective coordination at the subdivisional centres between the State Bank of India and the cooperative banking system of each State.

Its role is also to act as an instrument of development although principally, the State Government are directly responsible for the implementation of the programme of cooperative development.
The committee has also advised the Government not to interfere in its day-to-day working and the bank not to lower the standards of sound banking.

The Committee also stressed the training of the State Bank personnel in the aims and methods of cooperation and co-operative banking, and wherever suitable the association of such personnel with the Boards of cooperative credit institutions to promote technical quality of cooperative banking and attain the higher standards of commercial banking.

Thus the main objective of the State Bank of India is to ensure greater capability of providing financial resources in accordance with the objectives of economic plans and Government policies. It must, therefore, function in such a way that it might be an effective tool in promoting the well-being of all the sections of society. It should succeed in tapping the savings of the community and accelerate the tempo of economic growth. A large scale expansion of bank's offices is expected to prove a powerful instrument of economic growth by bringing about a notable change in their lending policies, with a view to encouraging entrepreneurs.
BUSINESS OF SBI

The State Bank can transact the following business:

Restrictions on Business of SBI:- The State Bank, according to section 34 is prevented from doing the following:-

1. Making a loan or advance for a longer period than six months, upon the security of stock or shares of the State Bank; or upon the security of any immovable property or the documents of the title relating thereto, except to the extent necessary for any of the purposes of this act.

2. Discounting bills for any individual or firm for an amount exceeding in the whole at any one time such sum as may be prescribed, or lending or advancing in any way to any individual or firm an amount exceeding in whole at any one time such sum as may be prescribed.

3. Discounting, lending or advancing or opening cash credits on the security of any negotiable security which

(a) at the date of the proposes transaction has a longer period to run than fifteen months, if the security is a bill drawn for the purpose of financing seasons agricultural operations and six months in other cases; or
(b) if the security is a bill drawn after sight, it is drawn for a longer period than fifteen months in the case of a bill drawn for the purposes of financing seasonal agricultural operations and six months in other cases.

(c) Save as otherwise provided above, the State Bank cannot own or acquire any interest in immovable property except for the purpose of providing buildings or other accommodation in which to carry on the business of the State bank or for providing residences for its officers and other employees.

ORGANISATIONAL SET-UP OF S.B.I.

The very nature of commercial banks with its great reliance on public confidence and its influence on the economic life of the nation envisages that the management and organisational structure of commercial banks should be highly efficient. By good management and organisational structure banks are in a position to attain maximum operating efficiency and profitability.

The public sector banks usually work autonomously under a specific statute and their relationship with and control by the Government are specified in the statute or regulations and directions periodically issued by the Government. As such chapter V (Sections 16 to 31 A) of the State Bank of India Act,
1955 also contains various provisions for the proper management of the State Bank.

CENTRAL BOARD

The general superintendence and direction of the affairs of the State Bank have been entrusted to the Control Board of Directors which in discharging its functions, has to act on business principles, regard being had to public interest in the discharge of its functions.

The State Bank must be guided by such directions in matters of policy involving public interest as the Central Governor of the Reserve Bank and the Chairman of the State Bank, give to it. The Chairman of the Bank presides over the meetings of the Central Board and does all acts as may be done by the Bank.

The management of the State Bank of India is vested with a Central Board of Directors and with the Local Boards. The Central Board is in Bombay. The Central Board consists of the following members:-

(i) A Chairman and a Vice-Chairman appointed by the Central Government on the recommendations of the Reserve Bank.

(ii) Not more than two Managing Directors appointed by the Central Board of Directors with the approval of the Central Government.
(iii) Seven ex-officio directors under section 19 (lb) of the S.B.I. Act, who are the chairpersons of the seven local boards.

(iv) Two directors appointed by the share holders other than the Reserve Bank of India.

(v) On the recommendation of the R.B.I. 2 to 7 directors representing cooperation, commerce, industry, trade, banking and finance are appointed by the Central Government.

The Chairman, the Deputy Chairman and the Managing Directors hold office for such term not exceeding five years as the Central Government may fix. However, they are eligible for reappointment. The ex-officio directors are appointed by the Central Government and hold office for four years, they may be re-elected or re-nominated. Other appointed directors hold office as desired by the appointing authorities.

LOCAL BOARDS

Local Boards are to discharge all functions allotted to them by the Central Board for the area under their jurisdiction. Statutorily they exercise all powers and perform all functions and duties of the bank in relation to business of the bank under section 32(1) relating to the agency of the Reserve Bank of India and some other functions under section 33 which relate commercial banking.
Seven Local Boards each in Calcutta, Lucknow, New Delhi, Bombay, Ahmedabad and Madras were constituted for the proper functioning of the bank. A local board consists of the following members:

(i) The Chairman of the Central Board is the ex-officio member of each local board. He presides over the meetings, if he is present.

(ii) Six members are appointed by the Government on the recommendation of the Reserve Bank of India.

(iii) Members of the Central Board belonging to the jurisdiction of the particular local board, if any, are ex-officio members of the concerned local board.

(iv) One representative elected by the shareholders residing within the jurisdiction of a particular local board, if they own at least 2.5 percent of the total shares of the Bank.

(v) The Secretary and the Treasurer of each local board are its ex-officio members.

The Chairman of each local board is appointed by the Chairman of the Central Board. The subsidiary banks are managed by a board of directors consisting of 5 members, three of which one each to be nominated by the State Bank, by the Reserve Bank and by the Central Government and two others elected by the shareholders of the concerned banks.
LOCAL COMMITTEES

A Local Committee under section 21 C (1) may also be constituted by the Central Board for any particular area to perform whatever functions are assigned to it and it consist of as many members as may be decided by the Central Board.

For different geographical areas, in which the bank's offices have been located, many local Head Offices have been created, and for every head office there is one Local Board.

PRESIDENTS OF LOCAL BOARDS

As a Chairman cannot possibly attend all the meetings of all the Local Boards, the Governor of the Reserve Bank appoints one of the members of the Local Board as its President.

ORGANISATIONAL SETUP

The bank has a decentralised administrative and organisational structure, with a Central Office in Bombay at apex level. The bank's offices all over the country are divided into 13 administrative regions called circles, each under the control of a local Head Office headed by a Chief General Manager and two General Managers. While the bank's apex policy making body is the Central Office located by Bombay, there are at present, twelve Local Head Offices administering the business of the Bank under the
overall control of the Central Office in respect of specified regions as mentioned hereunder:

ORGANISATION AT THE BRANCH LEVEL

The activities at branch level have been so organised that a customer's or a group's total banking needs are met by one department. The customers for this purpose have been grouped into the following five categories.

(i) Commercial and institutional customers, comprising large and medium size units engaged in industry, trade or business and including such institutions, such as clubs, societies, military units, universities etc.

(ii) Individual Customers.

(iii) Small scale industries and small business Customers.

(iv) Agriculturists; and

(v) Government.

Thus the Market Segmentation Approach has been adopted at the branch level. It involves the following changes:

1. The creation of departments, called, Commercial and Institutional Banking Division; Personal Services Banking Division, Small
Industries and Small Business Banking Division; Agricultural Banking Division, Government Agency Business Division and Services Banking Division.

2. The handling by the each division of all types of work e.g. Deposits, Advances, Collections, Purchases, Remittances from the particular group of customers.

3. A separate Department called 'Accounts Department' to handle all other work, which cannot be classified customer-wise e.g. clean book, general ledger, inter office accounts, cash clearing and local collections etc.

However, the small branches remain mostly unchanged because of low volume of work of each segment of customers. A separate ledger for every group of customers is maintained to find out the position about the particular segment of the customers without any inconvenience. Chart No.1.1 Showing the organisation of a Medium Size Branch.

MAIN BRANCH

The banking work at the local level is now carried on separately and this office is known as the "Main Branch".
CHART NO. 1.1

ORGANISATION OF A MEDIUM SIZE BRANCH

Branch Manager

Branch Management Committee (Branch Manager, All. Managers of Divisions and Manager (Accounts Department)

Manager
Commercial & Institutional Banking Division
- Deposits
- Advances
- Collections
- Purchases
- Remittances
- Foreign Exchange
- Safe Deposit Articles

Manager
Small Industries & Small Business Banking Division
- Deposits
- Advances
- Collections
- Purchases
- Remittances

Manager
Agricultural Banking Division
- Deposits
- Advances
- Collections
- Purchases
- Remittances

Manager
Personal Banking Division
- Deposits
- Advances
- Collections
- Purchases
- Remittances

Manager
Accounts Department
- Cash
- Clean Cash Book
- General Ledger
- Inter-Office A/c Clearing
- Govt. Receipts & Payment Employees
- State Insurance
- Scheme Public Provident Fund
- Govt. Fixed Deposits
- Units of the Unit Trust of India
- Main Transfer Paid Drafts Paid
- Telegraphic Transfer
- Despatch, Stationery Records, Returns.

Official-in-charge
Sub-Office
INTERNATIONAL DIVISION

Overseas branches for the development of international trade and foreign exchange business have been separated from other branches and they handle the accounts of those customers who have predominantly foreign exchange business. Besides the Banks International Division at the Central Office which overseas the foreign exchange operations, several been opened with a view to promoting and achieving efficient handling of exports Chart No. 1.2 shows the organizational Structure of International Division.
CHART NO. 1.2

ORGANISATION CHART OF INTERNATIONAL DIVISION

CHIEF GENERAL MANAGER

C.G.M.'s Secretariat

General Manager (Planning)

Manager (Foreign Offices)  Manager (Overseas Expansion)

General Manager (Overseas Operations)  General Manager (Domestic Operations)

G.M. (Pers.& Servys.)

MGR. (Correspondents Relations and Agency Banking)

MGR. (Services)

C.M. (Credit)

C.M. (General Banking)

MGR. (Credit I)  MGR. (Credit II) (Syndicated Loans)

MGR. (General (Personal) Banking)  MGR. (Services)

MGR. (Export Finance)  MGR. (Merchant (Import Banking) Finance)

MGR. (Foreign Exchange Business)

MGR. (Export Credits)

MGR. (Term Export Credits)

GENERAL SECTION

NOTE: C.M. - Chief Manager
MGR. - Manager
## ORGANISATIONAL STRUCTURE OF REGIONAL OFFICE

**Deputy General Manager**

### Manager's Secretariat

<table>
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<tr>
<th>Assistant General Managers</th>
<th>Branch Managers of Special Branches</th>
<th>Development Officers</th>
<th>Need Based Officers</th>
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<td>O-I/C General Section</td>
<td>O-I/C Verification Audit Section</td>
<td>O-I/C Disciplinary Proceedings Section</td>
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REGIONAL OFFICE

The State Bank, though having an all India Character, has always recognised the need to be close to its operating environment. The State Bank has set up various Regional Offices in different parts of the Country. Each of these Regional Offices, in turn, controls three to four regions. In order to ensure a close supervision and control on branches, each region is supposed to control not more than 35-50 branches and each Regional Office not more than 130-150 Branches. Further under the modular structure adopted by the State Bank, it has a decentralised decision-making process, where by the Local Head Office performs the marginal control outlining policies and strategies and the operational control vests in the Regional Offices. At present there are 50 Regional Offices spread all over the country. (Annexure No. 1) Chart No. 1.3 showing the organisational structure of Regional Office.

LOCAL HEAD OFFICE

The Chief General Manager is the Chief Officer of L.H.O. under him there are two General Managers - one for planning, promotional work and general service functions and the other for Control of Operations. Big branches of the bank are now
under the charge of very senior officers who are directly answerable to the General Manager. The medium and smaller offices have been grouped on the basis of geographical divisions headed by Regional Managers, located at head offices.

All aspects of branch operations including business, staff premises etc., are looked after by the Assistant General Manager concerned who directly report to the General Manager. One Assistant General Manager has to control about 30 - 50 branches. He is assisted by three officers called Area Superintendents. Area Superintendents visits his branches at least one in forty five days for reviewing the operations since his previous visits. These officers provide vital information to the Regional Manager, and the functional management official located at the Local Head Office to serve as a basis for policy formulation or for corrective action.

There is an 'Advances Department' at the Local Head Office for large advances, which are considered directly without routing them through the Assistant General Manager or General Manager. The advances department is fully equipped with persons of highly specialised knowledge and is headed by a very senior officer, called 'Chief Officer' reporting directly to the Chief General Manager.
An Inspection unit also works under the General Manager (operations) the inspection of cash and stocks.

There are also staff specialists to look after personnel, legal matters, premises and public relations at the Local Head Office. The operating personnel are directly concerned with supervision and control of branches. The functional and staff specialists are required to visit branches to study problems in their fields of specialisation, but they are, by and large, required to function through operation management. At present there are 13 Local Head Offices in the State Bank of India Chart No. 1.4 showing the organisational structure of Local Head Office.
CHART NO. 1.4
ORGANISATIONAL STRUCTURE OF LOCAL HEAD OFFICE

Circle coordination committee
(Chief General Manager, General Manager (Operational, General Manager (Planning)
Chief Regional Manager)

Chief General Manager

Circle Management Committee
(Chief General Manager, General Manager (Operations), General Manager (Planning)
Chief Regional Manager as invitees)

C.G.M.'s Secretariat

Special Secretary
To C.G.M.
Innovative Banking

Manager
Organisational Planning

General Manager (Operations)

General Manager (Planning)

S.M.(O)'s Secretariat

Personnel Manager
Manager General Deptt.
Manager Premises Officer
Law Officer

Chief Manager(s) of Main/special Branches
Chief Manager (Credit)

Development Managers
Commercial & Institutional Banking
Small Industries & small Business Banking
Agricultural Banking

International Banking
Personal Services Banking
Lead Bank

Manager Planning
Manager Human Resources Development
Manager Long Range Planning
Manager O-I/C Management

Manager Organisation & Methods Manager Merchant Banking Bureau
Manager Public relations Manager

O-I/C Organisational Planning

Manager O-I/C Damage Information System
Manager O-I/C Data Processing Centre
Manager Regional Stationery Deptt.

NOTE: Levels in the chart are not indicative of the relative status
- Personnel Department includes Co-operative Housing Cell and Funds Cell
- SIB Dept. includes village industries Cell and Technical Consultancy Cell.
- Credit Dept. includes Industrial Rehabilitation Cell.
CENTRAL OFFICE

Under the scheme of reorganisation the Chairman has been freed from the ongoing responsibilities of co-ordinating the work of operational heads of the Bank. There is one Managing Director under him. Under the Managing Director three posts Deputy Managing Directors have been created. Each of the three Deputy Managing Directors has complete functional control in his respective area, viz. one for banking operations, the second for staff and services and the third for planning and research. The Deputy Managing Directors have under them various Chief Managers looking after different aspects of the banks activities such as individual market segments, personnel premises, public relations, management science economic research etc. Necessary specialists have been attached to various departments and there is a provision of constant mutual consultation for the evolution of realistic policies now in view of the regional rural banks sponsored by the bank a regional rural banks department has been setup at the Central Office to provide necessary guidance and assistance.
The Central Office is also responsible for performing internal audit function, including audit of procedures and of adherence of bank's policies but the inspection and the verification of cash and stock, evolution of market potential and operating decisions are the responsibility of the Inspection Department of the Local Head Office.

A senior executive at the central office coordinates the work of subsidiary banks is responsible for developing an appropriate budgetary and management control system to provide control data for the use of Managing Director.
OTHER OBJECTIVES

The State Bank of India occupies most important place in the banking system of the country. This bank is performing functions of a commercial bank and also functions in the capacity of an agent of the Reserve Bank of India. It has taken the responsibility of expanding banking facility throughout the country. It also transacts business as foreign exchange in many countries of the world. The purpose of selecting this bank for research study is to go through various operations of this bank to assess their effectiveness. Much remains to be done for making improvement in its personnel management and administrative activities. It is not a question of managing well but managing in a manner which will ensure desirable results in accordance with the goals and objectives placed before the bank, hence the purpose is also to see how far the managerial aspect of this bank fulfils this objective.

It is also desirable to review the financial aspect of this bank because the success of the bank mainly depends on its financial structure. Various sources of finance and heads of expenditure will be studied. Deposit mobilisation, management of advances and profits will be especially discussed.
A survey of the Kanpur region of the bank will be made to assess the effectiveness of the management of deposits and advances with a view to making a detailed.