Chapter III

Strategic Planning and Control

The banking system in India is presently facing a peculiar situation where it is expected to perform a highly balancing act of helping the economy to grow, meet social obligations and at the same time ensure a high degree of operational efficiency comparable to global standards. An industry which for more than two decades was told to cater to the masses including the poorest, to make the banking services available on a subsidized basis, has now been asked to be competitive, consolidate the gains and come out with better operational efficiency. With the emphasis on earning more without overlooking or ignoring the above tasks, the approach towards conducting business has to be highly analysis-oriented and would need lot of planning and control so that the resources of money, time, infrastructure and manpower are used in such a manner that these new challenges are met with efficiency and effectiveness as, "in the competitive world of today," remarks Bandyopadhyay (1972), "tomorrow's success will depend on how the organization fore-arm itself to meet the change of the future" Thus in the changed economic scenario the main challenges before the banking sector are:

a) higher operational efficiency and achievement of higher net profits to working funds ratio,

b) meeting the global standards of capital adequacy for remaining internationally competitive,
c) improvement in the quality of assets, particularly the loan portfolio, increase in field from assets and reduction of risk cost of assets,

d) reduction in the cost of liabilities and servicing cost,

e) optimum productivity from the human resources through their proper development,

f) fixation of customer service indices for rendering excellent customer service and improvement in housekeeping for smooth running and minimization of cost of transactions with the help of information technology (Toor 1996).

For the efficient and effective achievement of these objectives, it is essential that a commercial bank should take a long-term perspective of its growth by formulating a long-term business plan. This calls for adoption of strategic planning and control systems on the part of banks to respond to the new requirements of the liberalized environment.

What is Strategic Planning?

According to H. Igor Ansoff (1965) "a strategy is one which,

1) provides a broad concept of a firm's business;

2) sets forth specific guidelines by which the firm can conduct its research and;

3) supplements the firm's objectives with decisions which narrow the firm's selection process to the most attractive opportunities.
Thus strategic planning involves:

i) Identification of opportunities and threats of an organization;

ii) Analysis of strengths and weakness of an organization;

iii) Formulations of specific objectives;

iv) Identification and evaluation of alternative strategies;

v) Selection of the best strategy; and

vi) Preparation of alternative plans for implementation of the strategy.

Thus strategic planning is the process of identifying the objectives of the organization and formulating broad strategies to attain them. In other words, strategic planning is a process concerned with the formulation of long range strategic, policy type plans that determine (and might change) the character or direction of the organization. Obviously, it means evolving the physical, financial and organizational framework within which operations are carried on.

What is strategic control

Strategic control involves the continuous monitoring and evaluation of organizational strategy with an emphasis on attainment of long term objectives within estimated resource constraints. Strategic control focuses on the dual question of: 1) the strategy is being implemented as planned, and 2) the results produced by the strategy are those intended.
The basic criteria used to answer these questions are derived from: a] the strategy and action plans developed to implement strategy; and b] the performance results that strategy is expected to produce. If a deviation occurs then feedback takes place and the strategic management process recycles (Schendel and Hofer, 1979). Thus the concept of strategic control implies that both the process and results of strategic management must be evaluated periodically to ask such questions as: what went wrong? what went right? How might our strategic management process be improved? No matter how well conceived a given managerial strategy may be, an effective implementation as part of a planned effort depends upon evaluation and control until the strategy succeeds, is replaced, or is abandoned. In this way, strategic control is accomplished through the establishment and use of strategic check-points which are the benchmarks used by top management to evaluate progress towards the accomplishment of the given strategy (Harrison 1991).

Nowadays strategic control has been viewed both as a philosophy of control and the environment of control instituted by an organization's leaders (Band and Scandas, 1995) An organization's philosophy of control will reveal certain fundamental assumptions about its business context; its structure, its staff, its competitors, its customers, its culture and competencies, its risks and its future. The principal function of strategic control is to assure senior management that risks to performance are being anticipated in ways consistent with an organization's long term viability and that competencies are being maintained and developed to enable an organization to pursue current strategic objectives successfully and to identify future strategic opportunities. In short, a strategic control system ensures that the immense effort put into preparing lengthy and detailed strategic plans is in fact
translated into action and the learning process is consolidated (Bangay & Goold, 1991). Indeed, a strategic approach to control is itself a source of competitive advantage.

**Strategic Planning & Control**

Of late there has been a general consensus among experts that strategic planning and management control reciprocates i.e., you cannot have one without the other, as a result of which strategic planning and strategic control has been viewed as one strategic planning and control process. (Lorange, Morton and Ghoshal, 1986) As a result of this, strategic planning and control is defined as the process by which managers ensure firm's (long term adaptation) to its environment, and deal primarily with setting basic strategic directions within the environmental contexts. The development of strategic planning and control proceeds from an assessment of the challenges to performance which the organization faces, both from internal sources (for example, human services issue; Technology and skill deficiencies; alignment of strategy structure and culture, adequacy of information flows; ownership and governance arrangements etc.) and external sources (for example, industry structure and competitive position; emerging technologies and markets, regulatory framework; consumer preferences; environmental influences etc. The purpose of this exercise is to generate information about both competencies and contingencies, "where competencies are the strategic competitive assets of the organization and contingencies are actual and potential strategic liabilities. These in turn provide the dual focus for a strategic planning and control system designed to assure the maintenance of competencies and insure against adverse effects from contingencies". (Band and Scanlar, 1995).
Strategic Planning and Control in Commercial Banks

In the commercial banking sector, strategic planning and control are used in visualizing the changes that are likely to occur or have occurred and their repercussions on the shape of future business challenges and opportunities over a period of 3 or more years. This system of planning and control is of recent origin in the commercial banks all over the world. In fact, in the advanced countries like the USA, Canada, the UK and other European states, the formal planning & control systems were introduced in the late 1960's and 1970's (Kaura 1984) and by 1980 only half of the banks in USA were following this system formally (Sapp, 1980). So far as India is concerned, long range strategic planning was introduced in 1986 in some banks of the country (Toor, 1996), although the benefits of the system were appreciated as early as 1977 at a workshop organized by the National Institute of Bank Management, Pune, and also the Indian Banks Association made efforts to devise methodology of long range planning for commercial banks in 1978 (Kaura, 1984). However, in the over-regulated banking environment the system could not become popular and remained more or less informal with the banking institutions.

Strategic planning and control in the post-liberalized environment.

In the new economic scenario where the liberalization, privatization, globalization, technological revolution, and the drastic reforms in the financial sector took place, the role of banks have undergone a paradigm shift. The Indian banking institutions are exposed to fierce competition of foreign banks, new private sector banks and non-banking financial institutions. The adoption of recommendations of the committee on Financial sector reforms popularly known as Narsim-
ham committee (see appendix I) the commercial banks have found themselves in a totally changed environment, where survival of the fittest has become the order of the day and the seller's market is replaced by a strong buyer's market. According to C. Rangarajan, (1993), "Banks habituated till now to swim in protected waters. The systems, procedures and technology shall have to be overhauled to enable the banks to operate effectively in a competitive environment". The new economic policy measures initiated by the government and the subsequent changes in market place have changed the perception of the banks on the strategies to be adopted by them in their search for sustainable competitive advantage (SCA). "Sustainable competitive advantage," states Michael Porter, "grows fundamentally out of the value a firm is able to create for its buyers. It may take the form of prices lower than competitors, for equivalent benefits or the provision of unique benefits that more than offset a premium price." The sustainable competitive advantage assumes paramount importance in redesigning the strategic planning and control systems for the commercial banks in the wake of the integration of our national economy with the global community and re-casting economic policies in line with the rest of the world (Murthy 1994). What is at stake for the banking sector because of being globalized, deregulated and liberalized is the sustainable competitive advantage of the individual banks as well as the sector as a whole. The message is clear - banks must develop a positive pro-active and pragmatic attitude towards the new changes. In this way, "the banking system of India faces the challenges of:

i) Exploring factor endowments (inputs required) regardless of whether these are endowed to native country or foreign country;
ii) Exploring adequate investments in technology and markets which are abreast of the latest trends on a global basis;

iii) Making timely, pre-emptive strategic and tactical moves to meet the changing complexities of business.

iv) Maintaining competitive advantage to gain an edge over rival entrepreneurs" (Murthy, 1994).

Competitive advantage can be maintained when a particular organization attains cost leadership and product differentiation. The cost leadership arises from productivity and low unit cost. The pre-liberalization banks lagged behind in both the parameters. Poor productivity arose because of overstaffing, indiscriminate branch expansion and lack of automation. The low unit cost was the result of obsession with the procedure-oriented approach and anachronistic systems and time-consuming methods. The product differentiation was rarely prevalent with banks in pre-reforms era. However, product differentiation may be done now through the following ways:

1) Introduction of new technology like Automated Teller Machines, Electronic Funds Transfer, Tele-banking Anywhere banking etc.

2) Extension of working hours like 24 hours of banking.

3) Home delivery facilities to customers etc.

4) Special deposit schemes targeted at various market segments.
5) Diversification to products like consumer credit cards, farm credit cards, travelers' cheques, investors' club, home loan accounts, industrial finance branches, overseas branches, stock investment transfer, treasury products, bid bonds, etc.

6) Diversify to new businesses like merchant banking, leasing, factoring, mutual funds, portfolio management, venture capital, housing finance, share deals, securitization of debts etc.

From the above discussion, it is thus clear that "in the changed environment only those banks would be successful who would follow the new rules of the game and formulate their objectives in the light of the changes that have taken place in their respective environments. The strategies would be formulated after making a careful environmental scanning and SWOT analysis, evaluating the impact of the liberalization measures like de-licensing policy, capital adequacy, freedom to rationalize existing branch network, new norms for income recognition, asset classification and provisioning, opening up the banking sector to new private and foreign entrepreneurs, reduction in the statutory liquidity ratio (SLR) and the cash reserve ratio (CRR), reduction in the minimum lending rate and liberalizing the interest rate on deposits and advances, etc.; and the overall conditions of the economy.

In order to comprehend how the Indian commercial banks have responded to these new changes and re-engineered their organizations, in the light of the above framework, a study was conducted among the Indian commercial banks the results of which are presented in the following pages, however, for a detailed analysis, only two banks were studied with the belief that studying two organizations would provide a better opportunity for in-depth analysis and a greater scope for cover-
age than studying a number of organizations. The line of thinking has been substantiated by Roberts (1974) and Mohantey (1979) who stated, "when phenomena are heterogeneous, generality can be gained at the price of the context. One is forced to say less and less about each case in order to include all possible cases". Thus the two banks studied represent the two major categories of commercial banks in India. One among the nationalized banks which may be called A-Bank and the other among the private sector banks which may be called B-bank. Hence in the following sections a detailed case description of the banks is given so far as their strategic planning and control systems are concerned.

Case Study of A-Bank

The A-bank is one of the oldest banks of India and the largest public sector-nationalized bank of northern India. The bank was established in 1895 as a private sector bank and has shown how a small bank weathered the trials of the country's struggle for freedom. After independence the bank witnessed a totally changed environment but has adopted the change as a challenge and became one of the successful organization's in the financial sector (Tandon, 1989). At the time of nationalization of 14 banks in India, this bank also was dedicated to the nation with the 100% equity owned by the central government in 1969. To pursue the objective of the nationalization, the bank rose to the occasion enthusiastically to meet the demands of the new environment, which were so different from the culture, precedence and practices of the organization. A complete overhauling of the organization took place amending its structure, systems, methods, policies and procedures. Thus the thrust of the bank objectives and strategies were directed towards the egalitarian goals like serving the backward regions and weaker sections
of the society. In this stage also the bank made long strides and has come up as one of the biggest public sector Nationalized, Commercials banks of India. Today the bank has 12 zonal offices, 66 regional offices and 3784 branch offices with an army of 72,154 personnel working through out the length and breadth of the country as on 31st March 1996.

Now when the country has adopted a new economic policy which has ushered in a competitive scenario since 1991, how the bank responded to the new challenges and managed the impinging changes would be clear by making a detailed study of its strategic planning and control systems which is discussed in the following paragraphs.

Strategic Planning and control practices of A-Bank

The bank had adopted the long range planning system way back in 1986 under a formal planning wing known as Management Advisory and Services Department (MASD) manned by a group of experts from varied fields of banking, economics, management, operations research and information technology and headed by a senior level executive, with the overall supervision of the chairman and Managing Director of the bank. The main job of this department is to identify the opportunities in the market for new products and businesses and prepare the bank to plunge into these areas, at the same time warning the bank against the potential threats which may arise in the external and internal environment of the organization.

Moreover, the department advises the bank to consolidate its core competencies to cut a strategic competitive advantage in the fast changing millieu. After the new economic policy measures were adopted the bank chalked out a 10 year long range strategic plan
for the bank to push the organization on the roads of growth and prosperity in the 21st century. The main objective of the bank has been set as growth with profits. To achieve this objective the bank was forced to have a fresh look in the new environment. This involved scanning the external and internal environment of the bank: external environment for identifying new opportunities and threats and internal environment for underlining the strengths and weaknesses of the organization. The process of environmental analysis as a sequel to strategic planning exercised by the bank is discussed as follows:-

Environmental analysis

In general, Indian banks used to function within the constraints of our national environment, but with the emergence of new scenario, the banks have been exposed to the fierce competition at home and the international impact abroad. Thus every bank was forced to make an analysis of the environmental opportunities, threats and its strengths and weaknesses to re-engineer its strategic and long range plans. The bank understudy has taken strong view of the situation which is clear from its response to analyze the environmental opportunities and threats and its strengths and weaknesses as is clear in the tables 3.1 and 3.2 which are discussed in the next page.
Importance attached to external environmental factors in formulating the strategic plan in the A-Bank

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Factors</th>
<th>Ranks in pre-liberalization Period</th>
<th>Ranks in post-liberalization Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>Change in Govt. policy</td>
<td>02</td>
<td>02</td>
</tr>
<tr>
<td>2)</td>
<td>Past performance of the bank</td>
<td>04</td>
<td>06</td>
</tr>
<tr>
<td>3)</td>
<td>RBI directions and guidelines</td>
<td>01</td>
<td>01</td>
</tr>
<tr>
<td>4)</td>
<td>Economic changes likely with regard to agriculture, industry and population.</td>
<td>06</td>
<td>05</td>
</tr>
<tr>
<td>5)</td>
<td>Changes in technology</td>
<td>07</td>
<td>04</td>
</tr>
<tr>
<td>6)</td>
<td>Social responsibility and needs of society</td>
<td>03</td>
<td>07</td>
</tr>
<tr>
<td>7)</td>
<td>Competition in the financial system as a whole</td>
<td>05</td>
<td>03</td>
</tr>
</tbody>
</table>

Source: Survey of the bank.

Environmental opportunities and threats

In the table 3.1 it is revealed that in the pre-liberalization era, the perception of the A-Bank was that among the external environmental factors, it would rate RBI directions and guidelines as the most important factor in formulating the long range plans, change in govt. policy was ranked second followed by the social responsibility and needs of society. The past performance of the bank and competition in the financial system as a whole were rated fifth and sixth in order of importance among the environmental factors. Economic changes likely with regard to agriculture, industry and population, and the change in technology were attached the least importance by ranking them sixth and seventh respectively.
In the post liberalization period (after 1991), although the first and second ranks were given to the RBI directions and guidelines, and changes in Govt. policy respectively, but the competition in the financial system as a whole is ranked as third and change in technology has been given as fourth number in order of importance. Similarly economic changes with regard to agriculture, industry and population, and past performance of the bank have been ranked as fifth and sixth compared to sixth and fourth in the pre-liberalization era. The social responsibility and needs of society which enjoyed the third number with respect to importance among all the environmental factors has today got the last number in the queue with the seventh rank because the concept of social responsibility of the banks has faded with the introduction of new economic policy. This suggests that the bank has changed its priorities with regard to importance for setting its strategic and long range plans, while analyzing the environmental opportunities and threats.

Organizational strengths and weaknesses

The conduct of position audit or internal appraisal helps the corporations to answer the basic question. What is our position? Or where is the Company now internally? (Pogue, 1990) The internal appraisal helps in assessing the capability of the bank by identifying core competencies (internal strengths) and weaknesses for framing achievable goals. The factors that are relevant for determining the strengths and weaknesses consist of variables over which a bank has a control. In the bank understudy, the analysis regarding the organizational strengths and weaknesses is exhibited in table 3.2 and is discussed in the following paragraphs.
Importance attached to internal organizational factors in formulating the strategic plans in A-Bank.

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Factors</th>
<th>Ranks in pre-liberalization Period</th>
<th>Ranks in post-liberalization Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>Trained and committed manpower</td>
<td>03</td>
<td>03</td>
</tr>
<tr>
<td>2)</td>
<td>Large branch network</td>
<td>01</td>
<td>01</td>
</tr>
<tr>
<td>3)</td>
<td>Financial strength</td>
<td>04</td>
<td>02</td>
</tr>
<tr>
<td>4)</td>
<td>Professional and experienced management</td>
<td>05</td>
<td>04</td>
</tr>
<tr>
<td>5)</td>
<td>State/Central Govt. being the major shareholder</td>
<td>02</td>
<td>08</td>
</tr>
<tr>
<td>6)</td>
<td>Low Staff costs</td>
<td>06</td>
<td>09</td>
</tr>
<tr>
<td>7)</td>
<td>Bloated staff costs</td>
<td>07</td>
<td>06</td>
</tr>
<tr>
<td>8)</td>
<td>Large non-performing assets</td>
<td>08</td>
<td>05</td>
</tr>
<tr>
<td>9)</td>
<td>Conservation and prudent lending/investment policy.</td>
<td>09</td>
<td>07</td>
</tr>
</tbody>
</table>

Source: Survey of the bank.

It is exhibited in the table 3.2 that the A-Bank was giving first rank to large branch network factor in pre-liberalization era, followed by state/centre govt. being the major shareholder and trained and committed manpower as second and third respectively. While as the other strengths like financial strength and professional and experienced management and low staff costs were ranked fourth, fifth and sixth. The weaknesses like bloated staff costs and large non-performing assets were ranked as seventh and eighth. The conservative and prudent lending/investment policy was given the last rank as there used to be directed credit policy, so this strength would have rarely any chance to influence the long range plan in the pre-liberalized milieuue.
In the post liberalization period as indicated in the table 3.2, only factors like large branch network and trained and committed manpower got the same rank as in pre-liberalized environment, i.e., first and third respectively. However, the factors like financial strength and professional and experienced management dominated the factors in strategic planning in the new environment, because of the new norms of RBI regarding capital adequacy and the adoption of marketing approach in banks respectively.

Preponderance of large non-performing assets/advances as the present and more so the potential weakness is the product of the new banking scenario. It is the result of the new accounting norms of the RBI regarding income recognition asset classification and provisioning (Sarda 1996). That is why banks are very particular to design strategies for the reduction of these non-performing advances and for this reason the bank under study has ranked it as fifth so far as the importance is concerned to various strengths and weaknesses. In the same way the factors like bloated staff costs and conservative and prudent lending, investment policies got more importance (6th and 7th rank as compared to 7th and 9th rank in pre-liberalized environment), simply because the bank wanted to use cost reduction and commercial viability of the investments as the potent strategy. The ownership of the state/centre government as a major shareholder and the low staff costs have got back seat in the post-liberalized environment as compared to the pre-liberalized era where these factors used to occupy the front seat so far as the importance of factors for designing long-range plans was concerned. Thus it is clear that there has been a shift from a govt. protection environment to a market oriented approach on the part of the bank.
After making the environmental scanning for drafting its long range plans, the strategic response of the bank to various environmental factors is discussed in the following sections.

Strategic responses to new forces

The banking scenario which ushered in a large number of challenges to the banking sector but at the same time provided a lot of opportunities to rationalize the operations, to build up competencies, to diversify, develop and make innovations. The responses of the bank under review to various environmental forces is presented as follows:-

a. De-licensing policy:

The license Raj which had ruled the Indian economy for the last forty four years is now over. The new policy measures adopted since 1991-92 has drastically reduced the number of industries which require prior permit; only 6 strategic industries are now reserved for public sector and only for 19 industries license is required to be got from the government (Dar, 1995). On the same analogy, the banks are now allowed to establish new branches (without prior license except with some minimum requirements) and close down the unprofitable branches which otherwise was not possible before the adoption of the economic reforms. Realizing the advantages of the de-licensing policy, the bank under study has adopted the following strategies to be competitive in the market place.

i) The bank has set up 124 new branches in various rural, urban, semi-urban and metropolitan centres. Also the bank tried to rationalize the operations of the bank and closed down some unprofitable rural branches which had become burden on its
ii) Shun the atmosphere of control regime and grappled competition and thus joined the risk regime by becoming profit conscious in all its activities and in all operations. Towards this end profit budgeting was started and at the regional level profit committees were established for the finalization of branch budgets.

b. Capital adequacy ratio:

On the basis of the bank of international settlements (BIS) standards the RBI made it mandatory for every bank to achieve the capital adequacy ratio of 8% of the risk weighted assets as proposed in the report of the committee on financial reforms, (see Narsimham Committee Report). Towards this end, the strategies adopted by the bank under study are the following:-

i) The bank cleaned up the advance portfolio to a large extent;

ii) The bank tried to make optimum utilization of its resources like cash, investments etc., by deploying in better profitability channels;

iii) Augmented lot of resources from the capital market by the bond issues;

iv) Approached the centre Govt.- its stockholder and got budgetary allocations to the tune of Rs 112 crores to correct under capitalization.

c. Cheap Money Policy:

With the tremendous decrease in the cash reserve ratio in the recent years, the liquidity in the banking
sector increased and also the RBI revised its rates of interest on the balance of SLR of the banks held with it. Moreover, the minimum lending rate was also reduced. To cope up with this challenge, the bank under study (A-bank) took up the following steps:-

i) It increased the amount of credit from Rs 8349.62 crores in 1991-92 to Rs 11,731 crores in 1994-95.

ii) It cut down the interest cost and as a better financial management strategy, improved the spread ratio (interest income to interest expenditure) from 1.37 in 1991 to 1.46 in 1995 and also reduced the operating expenses as percentage of operating income from 84.40% in 1991 to 30.02% in 1995 (see appendix II).

iii) It applied risk based interest rates on advances by adjusting the lending rates to the market rates within the overall limits of the RBI.

However despite these measures, the bank could not keep the total expenditure as a percentage of total income under control as it has gone up from 94.45% in 1991 to 96.96% in 1995. The main factors responsible for this as suggested by the above analysis is the unprudent investment policy and following of new norms of income recognition.

d. Competition by foreign and new private sector banks

With the liberalization measures allowing the setting up of new private sector banks with Rs. 100 crores, 9 private sector banks and 14 new foreign banks have joined the fray in the post liberalization era which have posed huge challenges to existing public sector and private sector banks (IBA bulletin, Jan-
The new names of Indus Bank, the WTI Bank, the HDFC Bank, the ICICI Bank, Global Trust Bank, Centurian Bank, The Times Bank, The Bank of Punjab and The IDBI Bank and several other foreign banks like Barclays Bank, Bank of Indonesia International, Bank of Japan, Overseas Chinese Bank, Fuji Bank etc., have become eye catchers for the customers in various niche areas and thus have posed a threat to the existing banks. Moreover, the existing foreign banks with their worldwide presence of strengths and technological update like that of ANZ Grindlays, Standard Chartered, City Bank, Bank of America etc., targeting the large corporate customers with a wide range of products and services have created a rough weather for the existing public and private sector banks. Not only this the competition started by the non-banking finance companies in merchant banking, leasing, consumer finance, transport finance, deposit mobilization and lending etc. have added further competition for the banks. To meet these challenges, the bank under study (A-Bank) has applied the following strategies:-

i) Adopted a market segmentation approach to target the competition in wholesale deposit market in big cities especially metros and introduced three new deposit schemes Sugan, Sweehna and Anupam.

ii) Started widespread computerization in the bank, with 10 out of 12 zones, 36 branches and 22 regional collection centres are fully computerized, in addition to all the divisions in the Head office.

iii) Introduced two new services a) stock invest, b) Quick clearing service for collection of outstation cheques.
iv) Introduced automated teller machines in 5 branches in the country and telebanking in one branch only.

v) Established 18 specialized finance branches to capture the niche market of SSI, corporate customers, export finance, foreign exchange and high tech agriculture finance etc.

e. Product and business diversification

While globalization is breeding hectic competition chargeable interest rates have to be scaled down, cheap money policies make way for monetary policy outfits in the near future. Therefore, "spreads get squeezed unless funds are well-managed and product mix is so maintained that cheap money policies do not affect the profitability (Murthy, 1994). This calls for chalking out diversification strategies to absorb the shocks of globalization and competition. Taking this into consideration, the strategies adopted by the bank under study are the following:-

i) The new products developed in the wake of liberalization are consumer credit cards, open C/C form credit, travelers cheques, home loan accounts, import credit, bid bonds, and export credit.

ii) The bank diversified into new lines of business such as merchant banking, leasing, mutual funds, portfolio management, bought share deals and factoring.

Review of Long range plans and controlling the performance

Strategic planning and control when practised effectively, leads to the successful implementation of strategic choices directed towards the attainment of
strategic objectives. (Harrison, 1991) The bank under study reviews the performance of the strategic planning and control system once in a year to get feedback about the plan implementation by matching the actual results with the pre-planned ones, and then timely corrective action is taken. In this process all the functionaries right from Chairman to the Regional Manager including Executive Director, General Managers, Chief of functions and Zonal Managers are involved. In the review and control process not only the corrective action and exceptional monitoring and surveillance is initiated in the weak areas of implementation but also the plans are modified and adopted according to changed conditions on the basis of the feed-forward mechanism. However, for the clarification of the innovations of the plan, the new strategic plan is communicated to the functionaries in writing through hierarchical levels and also through zonal and regional conferences held during the year. In this way strategic planning and control system is used to guide the company operations and measures the corporate performance in the bank under study.

From the above analysis, it becomes evident that the A-Bank though has started to practise the strategic planning and control to adjust in the new environment, however, it has not been able to reap its fruits in the efficient and effective way, because of the following reasons:

1. The organization structure of the bank stands designed as per the old environment. The new environment needs a structure which has various strategic business units as per the products and according to the geography of the bank operations. In the existing structure the strategists enjoy limited powers for taking any decision compared to new private sector and foreign banks where decentralization of authority is widespread and perfor-
Case Study of B-Bank

The B-Bank is a private sector bank as per classification of the RBI and is the largest private sector banks in the northern India so far as deposits, advances and total business is concerned (IBA Report, January, 1996). The bank was established in 1938 and thus has a long history of over a half century in the banking and has witnessed the great banking revolutions in the country in the pre-independence and post-independence period. The bank has increased its business manifold over the years and has spread its branch network in almost all the big cities (including metros) of the country. Although the bank was fundamentally established to cater to the banking needs of a particular state in the northern India. Nowadays the bank has as many as 360 branches with three divisional, 12 district and 4 area offices in addition to the central office. The bank is manned by as many as 5,499 persons in aggregate holding varied positions and posts. The bank has been able to absorb the shocks of banking developments in the country from time to time including that when the main focus of the banks shifted from centralized banking to over regulated decentralized banking in the 1970's. Since then the bank has been actively involved in the activities of social banking, sponsoring regional rural banks and working as a lead bank in many districts of the state. Besides, the bank has acted consistently as a banker to a particular state government, and, therefore, has contributed to economic development of the state in many ways. In this way the bank has traveled through the years in different financial phases and has learnt to respond to varied changes from time to time. In the wake of the latest economic revolution which has set-in since 19991 due to new economic policy, how the bank has reacted and re-engineered its business strategies, policies, plans and objectives and undertook its re-adjustment
programme is described as follows:

Strategic Planning and control Practices of B-Bank:

For giving future direction and lead to the organization, the bank has established the Business Development Systems and Procedures (BDSP) cell to chalk out the long and medium range plans. The cell is manned by a bunch of officers drawn from the normal cadres of the bank and is headed by a Chief Manager with the overall supervision of the Chairman. The planning wing which is supposed to be the beacon light for the whole organization is seldom manned by experts trained and specialized in banking, economics, management, operations research and information technology.

As a sequel to make the planning exercise effective in the bank, specific plans were drawn up for the first time during 1985-86, in the form of two year action plan for the period ending 1987 and onwards. This exercise involved the internal appraisal of the working of the bank with a view to streamline its functioning. Thus various steps taken to implement the action plans were:

i) strengthening the divisional and district tiers to enable them to effectively control and monitor branch operations.

ii) changes in the working of the advance department, aimed at improving the quality of appraisal of proposals were brought about and the department has been placed under the whole time supervision and control of Deputy General Manager (DGM).

iii) the central accounts department and investment portfolio department have also been placed under direct supervision and control of DGM to enhance
the efficiency of operations falling within the revised jurisdiction of the department. This included the clearance of the accumulated backlog in inter branch reconciliation (IBR) and improving the management of funds portfolio. A special task force was set up recently for IBR which did a significant job.

iv) a number of changes in the procedures and systems was introduced to achieve the twin objectives of effective control on operations of the branches and streamlining their working towards a better customer service.

Thereafter, the bank has been making certain long range moves to accelerate its pace of progress. However, like the majority of the private sector banks of the country, the strategic planning is done more informally than with a formal set-up. The levels of management involved in formulating the strategic plans are Board of Directors (BOD), Chairman/Chief Executive Officer of the Bank, (CEO), General Managers (GMS), Deputy General Managers (DGMS). After liberalization the bank is following three years as the time horizon for its long range plans and the latest long range plan has been formulated in 1994 for the years 1995-96, 1996-97, and 1997-98. The long range plans indicating the setting up of objectives and formulation and implementation of strategies and policies have been sketched out by monitoring the external and internal environment through SWOT analysis, which is discussed as under:

**SWOT Analysis**

As stated earlier, the SWOT analysis for bank means scanning the impact of the opportunities and threats prevalent in the external environment of the bank like:
i) "monetary policies on interest rate structure savings schemes, banking policies of the RBI, fiscal policies of the government such as tax concessions, subsidies, deficit financing;

ii) economic factors such as industrial production trends, agricultural trends, monsoons, prices of agricultural commodities, export/import restrictions, inflation and trade cycle in the economy, five year projections and sectorial allocations, services sector conditions, competition from other banks and non-banking finance intermediaries, effects of regional influences where the bank's presence is pre-dominant and capability of the internal factors of the bank showing strengths and weaknesses like trained and committed manpower, financial strength, technology development, wide branch network, escalated establishment costs, labour unrest/good industrial relations, culture of the organizations, structure, systems and procedures, pricing policies, reputation of the bank etc." (Seshadari, 1982). However, the above list is not exhaustive or comprehensive. Each bank is formulating a priority list of strengths, weaknesses, opportunities and threats (SWOT) for the analysis relevant to their respective organizations fitting their situations and timing. The analysis of the various external and internal environment factors relevant for the bank under study (B-Bank) are described in Tables 3.3 and 3.4 which are described in the following paragraphs.
Importance attached to external environmental factors in formulating the strategic plan in B-Bank

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Factors</th>
<th>Ranks in pre-liberalization Period</th>
<th>Ranks in p.liberализa Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Change in Govt. policy</td>
<td>02</td>
<td>02</td>
</tr>
<tr>
<td>2.</td>
<td>Past performance of the bank</td>
<td>05</td>
<td>05</td>
</tr>
<tr>
<td>3.</td>
<td>RBI directions and guidelines</td>
<td>01</td>
<td>01</td>
</tr>
<tr>
<td>4.</td>
<td>Economic changes likely with regard to agriculture, industry and population</td>
<td>06</td>
<td>06</td>
</tr>
<tr>
<td>5.</td>
<td>Changes in technology</td>
<td>07</td>
<td>04</td>
</tr>
<tr>
<td>6.</td>
<td>Social responsibility and needs of society</td>
<td>03</td>
<td>07</td>
</tr>
<tr>
<td>7.</td>
<td>Competition in the financial system as a whole</td>
<td>04</td>
<td>03</td>
</tr>
</tbody>
</table>

Source: Survey of the bank.

Environmental Opportunities and Threats

It is exhibited in the table 3.3 that in the pre-liberalization era, the bank under study was giving the most importance to the RBI directions and guidelines; The bank ranked RBI directives and change in Govt. policy as number 1 and two respectively. These two factors have maintained their respective importance (ranks) even after the liberalization also. The perception of the bank regarding the importance of social responsibility and needs of society and performance of the financial system as a whole has undergone a complete change. In the pre-liberalized environment the
social responsibility and needs of society was ranked as the third most important factor, while as in the new environment the same is placed in the back seat getting seventh rank among the factors that determine the long range plans of the bank. This clearly suggests that the importance given to social banking has faded in tandem with the new thrust of the new economic policy which ushered in the market driven banking environment in the recent years. Similarly the importance of technology which was rated as the least important factor by assigning it the last rank (seventh) in the pre-liberalized era has come up as the fourth important factor of strategic planning in the post-liberalization period. However, the bank perceives the same importance of past performance of the bank and economic changes likely with regard to agriculture, industry and population in the pre and post-liberalization period so far as their strategic planning is concerned because the ranks of these two factors were fifth and sixth respectively in both the periods.

Organizational Strengths and Weaknesses

So far as the significance of the various internal strengths and weaknesses of the bank is concerned the various factors considered by the bank for re-designing its strategic plans are described in the table 3.4.
Table 3.4
Importance attached to internal organizational factors in formulating the strategic plan in B-Bank

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Factors</th>
<th>Ranks in pre-liberalization Period</th>
<th>Ranks in liberalization Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Trained and committed manpower</td>
<td>03</td>
<td>05</td>
</tr>
<tr>
<td>2</td>
<td>Large branch network</td>
<td>02</td>
<td>04</td>
</tr>
<tr>
<td>3</td>
<td>Financial strength</td>
<td>05</td>
<td>03</td>
</tr>
<tr>
<td>4</td>
<td>Professional and experienced management</td>
<td>06</td>
<td>02</td>
</tr>
<tr>
<td>5</td>
<td>State/Central govt. being the major shareholder</td>
<td>01</td>
<td>01</td>
</tr>
<tr>
<td>6</td>
<td>Low Staff costs</td>
<td>04</td>
<td>06</td>
</tr>
<tr>
<td>7</td>
<td>Bloated staff costs</td>
<td>08</td>
<td>08</td>
</tr>
<tr>
<td>8</td>
<td>Large non-performing assets</td>
<td>07</td>
<td>07</td>
</tr>
<tr>
<td>9</td>
<td>Conservation and prudent lending/investment policy</td>
<td>09</td>
<td>09</td>
</tr>
</tbody>
</table>

Source: Survey of the bank.

It is manifest in the Table 3.4 that the strength of the B-Bank is that the state government being the major shareholder remains unchanged in both the pre and post-liberalization periods. However, the large branch network which was ranked second among the internal strengths of the bank has assumed the fourth position in the post-liberalization era. The variable-trained and committed manpower which was ranked third in the pre-liberalization era has been replaced by the financial strengths of the bank so far as their importance in long range planning is concerned. The reason being
the recent specific capital adequacy ratio fixed by the RBI and the shift towards profitability and productivity concept in banking all over the country. The professional and experienced management which was seldom considered a strength in the pre-liberalized over regulated environment and therefore, got 6th rank in order of importance while as in the new competitive environment this factor has been recognized the second most important factor because of the increasing professionalisation of management in the overall banking industry. The large branch network had got the second rank in the pre-liberalized era is now ranked as fourth important factor and low staff costs which enjoyed the 4th rank before is now ranked as 6th. However, the other factors such as large non-performing assets, bloated staff costs and conservative and prudent lending/investment policy have the same importance among the internal factors of the bank even today ranked as 7th, 8th and 9th respectively as they were having in pre-liberalized period.

In the light of the SWOT analysis the major strategies formulated by the bank as a response to various opportunities provided by the environment are described as under:-

a. De-licensing Policy

In line with the overall development of the banking industry and easing out the licensing policy by the RBI the bank undertook the following strategic moves:

i) The bank set up 25 new branches and extension counters and extended its boundaries to more geographical areas.

ii) The bank set up 6 specialized branches catering to the demands of one special market segments, i.e.,
SSI finance. However, the bank did not try to target the niche market opportunities like corporate customers, large industries etc., as is the case with other private sector banks like Bank of Rajasthan (see Chordia, 1996), The South Indian Bank (see Varghese, 1996), the Vijaya Bank (see Gupta, 1996), The Federal Bank (see Nair 1996), and the United Western Bank (see Joshi, 1996).

iii) As an acquisition strategy the bank took over one branch of a nationalized bank, the first experience of its kind in case of a nationalized bank.

iv) Though some consolidation and turning around strategies were framed for loss making branches, but they did not workout so satisfactorily. The bank did not resort to closing down of unprofitable branches in spite of the above failed turning around strategies, which needs a serious thought about the matter.

b. Cheap Money Policy

As a strong measure to implement the Financial Sector Reforms, the monetary policy instrument was used by the RBI to increase the quantum of credit in the economy. Thus reduction in the statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) was made. This made available an increased quantum of credit to the commercial banks. To avail this opportunity, the B-Bank increased its credit from Rs. 690 crores in 1991 to Rs. 1207 crores in 1995.

c. Capital Adequacy Ratio

As a response to follow RBI norms the bank increased its equity from Rs 51.90 in 1991 to Rs 108.93 crores in 1995. The bank issues bonus shares to reach
to capital adequacy ratio of 8% as fixed by the RBI. This time the bank is enjoying the capital adequacy ratio of 13.45% which is more than some of the private and public sector banks of the country.

d. Liberalised Interest rates

In a recent move the interest rates structure were simplified. Besides, the banks were given some discretion to fix interest rate on domestic term deposits and also on Non-Resident Non-external Rupee Accounts (NRNE) and Foreign Currency Non-Resident Accounts (FCNR) were relaxed. The response of the bank towards this policy was that it tried to cut down cost by reducing the expenses to income ratio from 75.25% in 1991-92 to 71.32% in 1995-96 and increase the credit from Rs 69040 lakhs in 1991-92 to Rs 136412.90 lakhs in 1995-96. The interest rate on deposits were also lowered as a response to recent reduction in the minimum lending rate.

d. Competition and Technology

In order to combat the competition unleashed by the new private sector and foreign banks in addition to public sector banks and non-banking finance companies, the bank tried to improve the customer service by adopting new technology. The bank has undertaken computerization of branches in a big way and 15 branches have already been computerized out of total of 360 branches. The bank has selectively adopted electronic transfer in just one branch. The tele banking facility and the Automatic Teller Machines (ATMS) are yet to start. Though the bank entered into a tie-up with Reuter News Agency for instantaneous information about global foreign currency rates and fluctuations thereof just to be up to date with regard to its foreign exchange business. However, these measures are very limited services as compared to the services provided
in the market, like Home Delivery, 24 hours banking, anywhere banking etc. about which the bank has yet to respond.

e. Product Diversification and Business Diversification

The bank is at present considering the introduction of commercial paper as a new product in its market. Moreover, the bank in order to expand the market for its debt instruments achieved major milestones by getting its CD's rated by one of the leading credit Rating Agency (CRISIL) as "pi+" which indicates the highest rating.

The bank introduced new products like Home loan accounts, Import Credit and Export Credit as a product diversification strategy. However, because of the absence of well developed full-fledged marketing department in the bank, the bank remained dormant for the new opportunities of the market regarding other Fund-based and Fee-based products and businesses. Towards the products like Consumer Credit Cards, Farm Credit Cards, Traveller's Cheques, Investors Club, Stock Invest and the new business opportunities like Merchant Banking, Leasing, Factoring, Mutual Funds, Portfolio Management, Venture Capital, Share deals, Securitisation of debt, the bank has provided a deaf ear and did not undertake ventures in these areas unlike other private sector banks like the Bank of Rajasthan, the Vijaya Bank, the Federal Bank, the South Indian Bank and a number of nationalized banks (IBA Bulletin, Jan 1996). Even its traditional products of deposits and advances have not been introduced in the light of new competition because of lack of specialized marketing personnel.
f. Human Resource Management

For the first time the bank has drawn up a detailed manpower plan for all the branches/offices. This exercise required the rationalization of the need based personnel allocation on the lines of improvement in productivity and profitability. After liberalization, the per employee productivity has come up as one of the key indicators of performance in the annual reports of the bank. To achieve the goal of employee productivity, various training programmes were undertaken by the bank. Cash awards and incentives in recognition of dedication to bank interests, etc. special schemes of incentives outstanding performance in deposits mobilization, debt recoveries, housekeeping, discipline, etc. were introduced to bring a competitive spirit among the work force.

Conclusion

From the above discussion it becomes amply clear that strategic planning and control is a 'sine-qua-non' for the efficient running of a business enterprise especially in a liberalized environment which is market driven and customer oriented. The banking sector in India, which has undergone a paradigm shift has in general, realized the significance of the strategic planning and control systems, and recently has started to implement this aspect of planning and control as is evident from the above study of two selected nationalized and private sector banks. It is also implied that nationalized banks because of their formalized strategic planning and control systems have tapped some new opportunities in a more aggressive way than the private sector banks where the strategic planning is done more or less informally with less developed systems and methods. However, both the categories of banks have more or less same perception of the environmental
opportunities and threats and internal strengths and weaknesses in the pre and post-liberalized period, of course, with certain minor differences. Thus every bank tried to adjust itself to the new milieu.

The analysis in the preceding pages reveals that A-Bank reacted in a more calculated way and explored the new business areas like merchant banking, portfolio management, mutual funds, leasing and factoring services. Also the new products like consumer credit cards, travelers cheques, bid bonds, home loan account, tele-banking, ATM's, Export and Import finance and specialized branches for certain segment of customers like industrial finance have been introduced to reap the opportunities in the new environment. Despite all this the A-Bank has not been able to reap the fruits of the new environmental opportunities in a big way as compared to foreign and new private sector banks because of certain reasons as indicated in the preceding pages.

The B-Bank did not plunge into the new businesses but could only consolidate the existing position for survival and introduced a limited range of new products like home loan accounts, limited specialized finance for SSI units. The reason being the lack of well developed formalized strategic planning and control system which could have scanned the environmental opportunities through the SWOT analysis and activated the bank to diversify in lucrative areas of business.

Hence it may be concluded that if the Indian commercial banks have to survive and grow in the new milieu they will have to be pro-active and formulate necessary strategies and contingent plans well in advance so as to face the changes as and when they set in. For this, they will have to strengthen their strategic planning and control systems by the professionals.
and trained manpower with the latest technology and other facilities available, so that they can act as think-tank for the bank and would recommend the internal changes, in order to maximize its strengths and minimize its weaknesses, to utilise the environmental opportunities and threats for the advantage of the bank and would help the bank to attain and maintain sustainable competitive advantage.

In the strategic planning and control systems the general and overall plan for the organization is formulated which is then translated into various medium term programmes and budgets which are discussed in detail in the next chapter.

References


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