Question Paper
Management of Banking Companies (MB3H2B): October 2008
Section A : Basic Concepts (30 Marks)

- This section consists of questions with serial number 1 - 30.
- Answer all questions.
- Each question carries one mark.
- Maximum time for answering Section A is 30 Minutes.

1. The Leadership style which identifies employees who perform below the Leader's standard of work and demands better performance from them is known as <Answer>

(a) Coaching
(b) Pace setting
(c) Democratic
(d) Ethical
(e) Affiliative.

2. The risk that arises on account of poor corporate governance, wrong organization structure and inappropriate human resource policies is called <Answer>

(a) Poor Governance Risk
(b) Operational Risk
(c) Liquidity and Funding Risk
(d) Financial Risk
(e) Credit risk.

3. Lead bank scheme was introduced during the year <Answer>

(a) 1971
(b) 1976
(c) 1969
(d) 1973
(e) 1975.

4. McKinsey group provides a ten step blueprint for a horizontal company. Which of the following steps is **not correct** among them? <Answer>

(a) Structure should be organized primarily around the tasks and not the processes
(b) Senior managers should be made responsible for the processes and process performance
(c) Customer satisfaction should be used as a basic link to performance objectives and evaluation
(d) Teams should be made the focus of the organizational performance and design
(e) Vertical barriers in the organization should be broken down.

5. Which of the following is **not** a principle contained in the 1999 BIS paper which dealt specifically with the issue of enhancing corporate governance of banks? <Answer>

(a) Establishment of strategic objectives
(b) Conducting corporate governance in a transparent manner
(c) Ensuring that the board members are qualified and are not subject to undue influence from others
(d) Protection of the rights of share holders and recognition of the legal rights of stake holders
(e) Effective follow-up and utilization of audit conducted by both internal and external auditors.

6. Which of the following statements in **not correct** regarding principles of performance measurement? <Answer>

(a) Performance measurement must be manageable
(b) Greater the number of measures, greater the scope for improving performance
(c) The principle of ABC management applies to performance measurement also
(d) Issues of customer's concern that are policy oriented can not be managed by a Branch Manager
(e) Only such issues that could lift customer service quality through internal management with in a branch should be given utmost importance for rectification.

7. Which of the following is an Interpersonal role performed by a Manager? <Answer>

(a) Figure head role
(b) Monitor role
(c) Disseminator role
(d) Spokesman role
(e) Resource Allocator role.

8. Which of the following statements is **incorrect** with respect to 'Slow Industry Growth'? <Answer>

(a) When a market is growing, firms try to use resources effectively to serve an expanding customer base
(b) Growing markets increase pressure on firms to take customers from competitors
(c) Rivalry in non growth or slow growth markets becomes more intense as firms battle to increase their market shares by attracting competitors' customers
(d) Battles to protect market shares are fierce
(e) The instability in the market that results from competitive battles reduces profitability.

9. Which among the following is an operating and liquidity risk? <Answer>

(a) Liquidity risk
(b) Foreign exchange risk
(c) Credit risk
(d) Price risk
(e) Risk of loss due to technical failure.

10. Leader's ability to deal with subordinates or followers in a confident, calm and empathetic manner is referred to as <Answer>

(a) Objectivity
(b) Technical competence
(c) Physical and Nervous energy
(d) Personal Motivation
(e) Emotional Stability.

11. Which of the following statements is **not correct** with regard to changes in information processing technologies? <Answer>

(a) Changes in information technologies have allowed organizations to move into new product and market areas at a much faster rate
(b) Advanced information processing technologies have created new concerns for designing organizational structure
(c) Greater integration and coordination is possible now
(d) Changes in information processing technologies have led to the development of knowledge -based organizations
(e) Advances in technology have also increased the need for specialization and standardization.

12. Identify which of the following statements related to Knowledge Management programs is **not correct**? <Answer>

(a) The first generation of KM programs are technology based
(b) The second generation of KM programs lay emphasis on both 'know how' and 'know what' aspects of knowledge
(c) The 'know-how' aspect is related to the business realities
(d) The third generation of KM programs present a situation in which the bank is concerned with fostering innovation
(e) In the third generation of KM programs, emphasis is also laid on practicing knowledge.

13. Strategic change is the movement of a bank away from it's present state towards some desired future state to increase it's competitive advantage. The type/s of strategic change is/are <Answer>

I. Re-engineering.
II. Restructuring.
III. Innovation.

(a) Only (I) above
(b) Both (I) and (II) above
(c) Both (I) and (III) above
(d) Both (II) and (III) above
(e) All (I), (II) and (III) above.

14. Which of the following relating to 'Product' and 'TQM' is **incorrect**? <Answer>

(a) The product is a focal point for the organization's purpose for existence
(b) A product is in line with an organization's mission and goals
(c) For making a superior product, TQM envisages a group centered approach
(d) Committed personnel can design a superior product in a centralized environment
(e) The development of a superior product requires collaborative efforts.

15. Which one of the following statements is **not correct** with regard to stake holders in an organization? <Answer>

(a) Stake holders are individuals who are affected either adversely or favorably by an organization's operations
(b) Government, investors, employees and customers are all stake holders
(c) Government, investors and employees are linked through implicit contracts and stake holders like customers are linked through explicit contracts with the organization
(d) There are third parties, referred to as externalities linked through non-contractual terms
(e) Stakeholders should be appraised of relevant information pertaining to the company.

16. Which of the following is a ratio relating to Productivity thereby indicating the long term sustainability of banking business? <Answer>

(a) Return on Equity
(b) Operating expenses to Total expenditure
(c) Net interest income to assets
(d) Establishment cost to income
(e) Non performing assets to advances.

17. Which of the following statements is **not** relevant to Reform phase of banking (from June 1991) in India? <Answer>

(a) Economic reforms aimed towards a more open/competitive market economy is a historical initiative
(b) The economic reforms were launched in India under the compulsions of grave economic crisis
(c) BIFR and SICA enactment came into effect during this phase
(d) Reform phase began from June 1991 with the launching of economic reforms
(e) The reforms had to be designed and implemented in tandem with the conditionalties agreed with the IMF under a stand by loan facility.

18. Which of the following statements are **wrong** with respect to an unattractive industry? <Answer>

I. Has low entry barriers.
II. Suppliers and buyers have strong bargaining positions.
III. No competitive threats perceived from product substitutes.
IV. No rivalry exists among competitors.

(a) Both (I) and (II) above
(b) Both (II) and (III) above
(c) Both (III) and (IV) above
(d) (I), (II) and (III) above
(e) All (I), (II), (III) and (IV) above.

19. Which of the following is a Decisional role played by a Manager? <Answer>

(a) Disturbance Handler
(b) Monitor role
(c) Disseminator role
(d) Spokesman role
(e) Figure head role.

20. Which of the following leadership theories involves the use of decision-tree requiring 'Yes' or 'No' answers? <Answer>

(a) Contingency leadership theory
(b) Situational leadership theory
(c) The Leader- Member Exchange theory
(d) The Path goal theory
(e) The Vroom- Yetton model.

21. Bankers will have to take a calculated risk if they are to earn more than their competitors. Which type of leadership quality helps the banker in this regard <Answer>

(a) Persuasiveness
(b) Technical Competence
(c) Courageous outlook
(d) Emotional Stability
(e) Empathy.

22. Which of the following statements relating to the process of Enterprise-wide Risk Management (ERM) is **not correct**? <Answer>

(a) The process of ERM consists of Integration of Risk management as a key strategy
(b) The process of identifying and assessing risk must be common across the enterprise
(c) Risk management systems must be developed to provide information and analytical tools to support the ERM function
(d) Chief Risk Officer position is created with his/her accountability to the Board of Directors
(e) The process of controlling and financing risk need not be common across the enterprise.

23. The design dimensions for an organization are: <Answer>

I. Formalization, centralization.
II. Specialization, standardization.
III. Complexity.
IV. Hierarchy of authority.

(a) Both (I) and (II) above
(b) Both (I) and (III) above
(c) Both (II) and (III) above
(d) (I), (II) and (III) above
(e) All (I), (II), (III) and (IV) above.

24. Which of the following statements pertaining to corporate governance is **not correct**? <Answer>

(a) Bank management is under pressure to ensure the safety and soundness of banks
(b) Corporate governance affects the interests of a large cross-section of stake holders
(c) In India, banking sector is totally corporate
(d) Regulation and corporate governance complement each other in the banking sector
(e) Corporate governance has greater implications concerning financial stability.

25. Which of the following measures are **correct** with reference to a typical executive dash board designed to improve the over all performance of a bank? <Answer>

I. Increases the income by 20 percent per year.
II. Earn a minimum net income of 30 percent in mobilizing low-cost deposits.
III. Maintain the total NPAs at below 3 percent level of total assets.
IV. Strive to search 100 percent customer satisfaction level.

(a) Both (I) and (II) above
(b) Both (I) and (IV) above
(c) Both (II) and (III) above
(d) Both (III) and (IV) above
(e) All (I), (II), (III) and (IV) above.

26. Which of the following is the Informational Role played by a Manager? <Answer>

(a) Figure head role
(b) Leader role
(c) Liaison role
(d) Disseminator role
(e) Entrepreneurial role.

27. Which of the following statements relating to 'Diverse Competitors' is **false**? <Answer>

(a) All companies do not seek to accomplish same goals
(b) All companies do not operate with identical cultures
(c) These differences (a and b above) make it difficult to identify an industry's competitive rules
(d) With greater diversity, it is difficult to know the outcomes a competitor seeks through industry competition
(e) Diversity among firms may cause a company to take competitive actions which can not improve the firm's ability to predict competitors' future actions.

28. Which among the following is a balance sheet risk? <Answer>

(a) Liquidity risk
(b) Credit risk
(c) Price risk
(d) Risk of loss due to technical failure to execute or settle a transaction
(e) Risk of loss due to adverse changes in the cash flows of transaction.

29. There is a high degree of interest and stake for the government in the banking sector and the reasons for the same are <Answer>

I. Small depositors in particular are not in a position to protect themselves.
II. Small depositors are unable to coordinate with each other and they also suffer from inadequate information.
III. Bank assets in general lack transparency and liquidity.
IV. There is always a fear of contagion effect arising out of an instability and/or failure of bank(s).

(a) Both (I) and (II) above
(b) Both (II) and (III) above
(c) (I), (II) and (III) above
(d) (II), (III) and (IV) above
(e) All (I), (II), (III) and (IV) above.

30. Which of the following leadership theories is strongly correlated with low turnover rates, high productivity and high employee satisfaction? <Answer>

(a) Super Leadership
(b) The Vroom-Yetton Model
(c) The Leader-Member Exchange Theory
(d) The Path Goal theory
(e) Transformational Leadership.

END OF SECTION A

Section B : Caselets (50 Marks)

- This section consists of questions with serial number 1 – 8.
- Answer all questions.
- Marks are indicated against each question.
- Detailed explanations should form part of your answer.
- Do not spend more than 110 - 120 minutes on Section B.

Caselet 1

Read the caselet carefully and answer the following questions:

1. Eliminating Fraud is important for banking industry. Elucidate. **(7 marks)** <Answer>

2. What are the effects of unethical behaviour? **(7 marks)** <Answer>

We will begin by attempting to define a fraud. A fraud represents the effort to obtain financial benefits, by persons not entitled thereto, by the use of dishonest means, cheating, misrepresentation, confidence tricks, forgery etc., with or without collusion from the custodians of public funds. It is an attack on the system. It is the equivalent of unlawful elements using violent or other means to snatch, loot, rob or steal cash and valuables – only the methods used in frauds are in the nature of white-collar crimes. Funds involved in the white-collar frauds usually are much larger, committed by known persons in whom trust has been wrongly placed, and the banking channels get misused. It is a crime against banks and the society.

Frauds, as compared to a theft or a heist, are generally detected much later and leave in their wake much more wreckage by way of shattered careers, lost self-confidence, and may later lead to the involvement of several detective and punitive agencies like the Vigilance Department, Police/CBI/ACB etc. There may also be instances of destruction of evidence. Moreover, when insiders collude, we are also looking at a form of corruption. Hence, we should be highly intolerant of such white-collar crimes called frauds as well as all other crimes against banks.

Frauds are Avoidable

Banks will be safer if the branch managers and staff members are vigilant. There is usually a delay between occurrence and detection of frauds at branches, which is to be curtailed. Small ‘need-based’ frauds, if not detected in time, lead to bigger ‘greed-based’ frauds. We deal not only with public funds but also with public trust. Frauds cause not only pecuniary loss to the bank but also tarnish the bank’s reputation. Occurrence of frauds also leads to crisis of confidence. Incidence of frauds multiply as the society traverses from the path of honesty to dishonesty and from contentment to greed. Moral degeneration and desire to maintain a lifestyle, beyond one’s economic capability are the root causes for the spurt in the occurrence of frauds in recent years.

Frauds have Serious Fallout

The banks hit by frauds have to spend years to unravel the mystery of a fraud and punish the guilty. All these add to the cost represented by financial loss and damage caused to the reputation of the organization in the aftermath of the detection of fraud. Moreover, destruction of primary evidence is also visible in many cases. In all such cases, we may not be able to repose trust in any one of our colleagues in the branch, Frauds committed by insiders, due to abuse of trust reposed in them, therefore, cause more damage than the frauds committed by outsiders. Branch Managers have to be on guard as fraudsters may try to win their trust and sympathy. At the same time, they cannot avoid interacting with the existing and prospective customers. While they cannot be sure of their intentions, time-tested methods for the verification of their antecedents have proved effective in foiling fraudulent attempts, and now KYC norms ask us to do just that.

Corruption Attacks the Core Fiber of the Organization

Corruption is also arguably a form of fraud, It diverts an organization from its avowed objectives and policies, to what become self-serving policies it can lead to misuse of power by conferring unlawful benefits to third parties for personal considerations, against rules and regulations, and in gross violation of the code of conduct. Gross negligence of duty i.e., dereliction of duties leading to losses is also equally reprehensible. Due diligence is the watch word for each person working in the financial sector more so in the banking sector.

Prevention is Better Than Cure

We must not, however, depend only on the deterrence of the punishments since they come only at the end of the process but must concentrate on removing the facilitating factors, some of which have been mentioned above, by adhering to our laid down instructions and norms by intelligently implementing these at the work place. Good administration helps in good customer service and also helps in the prevention of frauds. To prevent frauds, the branch manager should be an effective manager, not simply a popular manager. Preventive vigilance is to be practised by meticulously adhering to laid down systems and procedures in the branch.

Can Frauds be Prevented?

The real challenge is "can we prevent frauds" in the branches? Yes, we can and we have, in many cases, by knowing the above weaknesses and taking effective steps to prevent unholy attempts to exploit those weaknesses. However, the success stories, where fraudulent attempts have been successfully thwarted, would be rather small in number because fraudsters, (outsiders and insiders) mostly are shrewd people and choose to strike only at those branches where the prevailing atmosphere gives an "open invitation" to fraudsters. In most cases we have only ourselves to blame. Even if it may not be possible to completely eliminate frauds in banks, it is definitely possible to minimize the number and amounts involved.

END OF CASELET 1

Caselet 2

Read the caselet carefully and answer the following questions:

3. List out the various types of Risks in Banking. Explain 'Poor Governance Risk'. **(5 marks)** <Answer>

4. What are the practical benefits of 'Enterprise-wide Risk Management' (ERM)? **(5 marks)** <Answer>

Financial risks are unavoidable for financial institutions. These overlapping risks are often integrated in such a way that they cannot possibly be disentangled. In a sense, it is the capability of the institution to handle risks that determines its survival in the dynamic market, where all of the financial markets represent a continuum because of fungibility of the money and the integration of the markets, both vertically and horizontally. It is against this background of dynamic market that the Basel Committee on Bank Supervision has been focusing on the risk management and the risk absorption capacity of the banks in terms of their capital funds. The inevitability of the financial risks and the important bearing they have on the net worth of the bank are the reasons for approaching this problem through the provision of risk adjusted capital and ensuring that all banks and financial institutions are adequately capitalized so that the financial soundness and stability of the system is assured.

The BCBS is mainly concerned with the financial stability of the market, which is the prerequisite for the economic development of any country. The East Asian crisis has brought home this critical fact. Therefore, in modern times, banks have to wrestle with risks managing system in their business from various dimensions and through various activities and transactions and also ensure that these risks are managed in such a manner that there is adequate compensation for taking such risks. In other words, the crucial strategic decision that banks have to make is whether the type and amount of risks assumed by them brings them adequate compensation in terms of earnings and business growth.

The structure of risk management functions is in place in most banks and financial institutions, thanks to the regulatory requirements.

Typically, banks need to approach risk management at two levels—at the macro level and the micro level.

The macro level management will be effective if there is a centralized database regarding all the transactions of the bank. In the absence of such a data warehouse, the approach has been rather ad hoc and fragmented based on some select areas such as foreign exchange or investment. It is a well-known fact that risks are inherent in various transactions of the bank and hence, for the purpose of understanding we prepare taxonomy of the risks. They cannot be disentangled in reality and keep manifesting in different forms in diverse circumstances. Therefore, there is an urgent need to develop a centralized database of all the transactions, so that the interconnections between the various risks can be unraveled and handled effectively.

While the specifics of the Indian financial markets may be at variance at international markets, the basic issue of ensuring adequate risk return in trade is as important to the Indian entities as it is to the international markets. Of late, this awareness has increased among the banks, thanks largely to the proactive measures taken by the Reserve Bank of India (RBI). In fact, RBI has been steadily focusing the attention of banks to the core issue of risk management since 1999. Several credit and monetary policies have highlighted the importance of risk management and indicated the road map for the Indian banks to progress in this regard. Besides, the RBI has issued guidance notes on credit risks, country risks and liquidity risks in the form of asset liability management guidelines. However, it has wisely refrained from prescribing details of the risk management policy or practice to the banks/financial institutions. The measure taken by the Reserve Bank is to increase market disclosure with regard to risk management. Beginning from the March 2003 balance sheet, all banks are required to disclose their risk management policies and procedures in the balance sheet. The third measure taken to put in place a proper risk management system in banks is the institution of risk-based supervision by the RBI and the requirement of risk-based audit by the banks themselves.

END OF CASELET 2

Caselet 3

Read the caselet carefully and answer the following questions:

5. Give an account of Banking and Finance in the pre reform period. **(8 marks)** <Answer>

6. Discuss the effects of Reforms in the Banking Sector. **(8 marks)** <Answer>

The Banking Sector Reforms in India were initiated in 1992. The objectives of reforms were to strengthen the Indian banks, make them internationally competitive and encourage them to play an effective role in accelerating the process of growth. The reforms process also initiated measures for improving the productivity, efficiency and profitability of the banking system. It was also recognized that the Indian banking system should be placed on par with international standards in respect of capital adequacy and other prudential norms. The operational rigidities in credit delivery system were to be removed to ensure allocation efficiency and achievement of social objectives,

The policy initiatives taken in this regard were largely based on the recommendations of Narasimham Committee I & II on Financial Sector Reforms and Banking Sector Reforms, respectively.

i. Implementation of the recommendations of these two Committees were carefully sequenced, ensuring that the progress of banking sector reforms takes place steadily without causing any systemic disruptions.

ii. The major initiatives undertaken in pursuance of the recommendations of the Committees may be categorized under Deregulation, Prudential Measures, Competition and Enabling Measures. The policy measures taken in this regard are as under:

Deregulation

- The statutory preemptions in the form of SLR and CRR have been brought down in a phased manner to 25% and 4.5% respectively.
- The interest rates have been deregulated in a phased manner. All lending rates have been deregulated except lending to small borrowers and a part of export finance. Interest rates on deposits are now almost free except for prescription in respect of savings deposits and foreign currency deposits. The interest rate on Government borrowings is also now market determined.
- Banks have been given greater autonomy in the areas like branch rationalization, credit delivery, recruitment and creation of posts, etc., subject to fulfillment of certain criteria.

Prudential Measures

- In order to strengthen the financial position of banks, minimum Capital to Risk Weighted Assets Ratio (CRAR) was prescribed at 8%, which was further increased to 9% from the year ending March 31, 2000.
- With a view to adopting the international best practices in regard to income recognition, asset classification and provisioning, the norms introduced in April, 1992 are being progressively reviewed and revised. The significant initiatives taken in this regard are prescription of provisioning requirement of 0.25% in respect of standard (or performing) assets, reduction of the time period for classification of doubtful asset from 24 months to 18 months with effect from March 31, 2001 and from 18 months to 12 months with effect from March 31, 2005, introduction of 90 days norms for classification of NPAs with effect from March 31, 2004.
- The ceiling on exposure to a single borrower has been reduced from 20% to 15% of the bank's capital funds and group borrower exposure reduced from 50% of bank's capital funds to 40% with effect from April 1, 2002. Capital funds for the purpose has been redefined to place it on par with the capital funds as defined for capital adequacy purposes with effect from March 31, 2002, etc.
- Banks were also advised to classify investment portfolio into three categories viz., Held to Maturity, Available for Sale and Held for Trading, effective from September 30, 2000, in line with international best practices.
- With the gradual liberalization of the Indian Financial System and growing integration of the domestic market with the external markets, the risks associated with banks' operations have become increasingly complex, requiring strategic management. RBI has issued guidelines on Asset Liability Management (ALM) systems and on integrated risk management systems in banks. Due to diversity and varying size of balance sheets, banks have been advised to design their risk management architecture, taking into consideration the size, complexity of business, risk philosophy, market perception and the level of capital. With a view to fine-tune the risk management systems in banks and to help smaller banks in achieving the minimum standards, RBI has issued guidance notes on credit and market risk. In order to mitigate the risk in country exposures, RBI has also issued the guidelines on country risk management.
- The transparency and disclosure standards as prescribed under International best practices are being implemented in a phased manner, Disclosures requirements have been further broad-based and banks have been, advised to disclose maturity pattern of deposits, borrowings, investments and advances and foreign currency assets and liabilities, movements in NPAs and lending to sensitive sectors with effect from March 31, 2000. From year ended March 31, 2001, banks were advised to disclose total advances against shares, total investments made in equity shares, convertible debentures and equity-oriented mutual funds and total amount of standard/substandard assets subjected to

restructuring. Further, from year ended March 31, 2002, banks are required to disclose movement of Provisions held towards NPAs, movement of Provisions held towards depreciation of investments and the total amount of standard/substandard assets subjected to CDR, etc. From the year ended March 31, 2003, banks have been advised to disclose Country risk exposures, i.e.,

i. Risk category-wise country exposures.

ii. The extent of aggregate provisions held there against.

END OF CASELET 3

Caselet 4

Read the caselet carefully and answer the following questions:

7. Discuss a few of the Leadership Qualities. **(5 marks)** <Answer>

8. Describe the 'Affiliative' and 'Democratic' styles of Leadership. **(5 marks)** <Answer>

As Hersey Paul says, "Leadership is situational". The transition of commercial banks from private to public ownership was not difficult, The transition from today to tomorrow is more difficult, in the context of globalization, technology revolution and liberalization. Leadership should be non-hierarchical. But public sector culture in the tradition of government services is based on hierarchy. Banks have radically restricted their organizations to meet the needs of the 21st Century. Structural change has not been followed by people's changes. Government has not relinquished their rights over "milch cows". From the appointment of top executives to laying down policy prescriptions on interest rate, manpower employment and trade union and political needs, government is maintaining all pervasive control. The top leadership in bank is in the "command and control" mode, circumscribed by political directives and trade union needs, which may be either explicit or implicit. With the manpower trained in manual technology and operating in core banking solutions, pressurized by unions in day-to-day management and left without support by helpless top executives, the branch banking in public sector is floundering under stress, In a top US company, the mission statement says, "Here you are either a leader or candidate to be a leader". In branch banking, he is a nominal leader, de facto leadership being in hands of those who enjoy power without accountability. The typical low key response in banks is to promote a selected few, young in age, not necessarily in spirit, out of turn with a series of psychological tests whose authenticity is not beyond debate or to induct laterally a few from management institutes, as if five hares will compensate for the speed of 95 tortoises. In a sense, the bank leadership is situational on day-today basis. The vision at the top is restricted to 1/2 years tenure, in a period in which no radical transformation can and does take place. Previously, they were flaunting statistical achievements in priority sector financing, with more than third of it, being written off or turning bad debt. What is the achievement in the real sense? Presently, they are reciting profitability statistics, which Indian Banks or Global Trust Bank (GTB) fiasco in the past has revealed and how fragile all these can be. Ever greening, writing off loan, moratorium, even if it is a part of declared public policy, can only postpone the Day of Judgment.

Authentic leaders display consistency in words and deeds. In the present day banking, excellence is sacrificed for expediency and customer service for employee relationship. Excellence is a question of spirit. It emanates from a reasonable tenure of leadership, freedom of planning and action and attitude to do something remarkable. In private sector financial services, heroic leadership was available as Shri N Vaghul of ICICI and Shri D Parekh of HDFC. In public sector banking, it was Shri RK Talwar of SBI. They had reasonably long tenure of leadership, vision of bank as it should be in the next 10/20 years, ability and willingness to translate dream into reality and support of chosen and dedicated executives who were handpicked by them. They were leaders of distinct "change masters" and they had developed leaders at every level for the next generation. They were not merely power wielders who treat people as things. They had unquestioned integrity, vision creating shared meaning and they had aroused, engaged and influenced followers deeply and widely.

END OF CASELET 4

E
N
D

O
F

S
E
C
T
I
O
N

B

Section C : Applied Theory (20 Marks)

- This section consists of questions with serial number 9 - 11.
- Answer all questions.
- Marks are indicated against each question.
- Do not spend more than 25 - 30 minutes on Section C.

9. Elucidate the following basic qualities of individual entrepreneurs: <Answer>

a. Personal qualities. **(3 marks)**

b. Business and Managerial skills. **(3 marks)**

10. Explain the Pillars of Total Quality Management (TQM). **(6 marks)** <Answer>

11. Write short notes on: <Answer>

a. Sales Force Automation. **(4 marks)**

b. On-site inspection and Off-site monitoring. **(4 marks)**

END OF SECTION C

END OF QUESTION PAPER

Suggested Answers
Management of Banking Companies (MB3H2B): October 2008

Section A : Basic Concepts

	Answer	Reason
1.	B	Right option is (b). A Pace setting leader is obsessed with working better and faster. He expects his subordinates to emulate him. He identifies employees who perform below his standard of work and demands better performance from them. He may even terminate their services if they do not come up to his expectations. < TOP >

2.	A	Right option is (a) as poor governance risk arises as a result of poor corporate governance, wrong organization structure and inappropriate human resource policies.	< TOP >
3.	C	Right option is (c) as Lead Bank Scheme was introduced in December 1969.	< TOP >
4.	A	Right option is (a) because the first step in the 10 step blue print for a horizontal company based on the study conducted by McKincy group states that structure should be organized primarily around the processes and not tasks. All others are correct steps.	< TOP >
5.	D	Right option is (d) as the statement consists of basic pillars of OECD code and is not among the principles contained in the 1999 BIS paper which has specifically dealt with the issue of enhancing corporate governance for banks.	< TOP >
6.	B	A common perception among organizations is that greater the number of measures, greater the scope for improving performance. But it is better to have a limited number of measures so that they can be managed easily. Hence right option is (b).	< TOP >
7.	A	Right option is (a) as the Figure head role is important for smooth functioning of an organization. As a figure head, managers perform duties of a ceremonial nature as head of the organization/strategic business unit/ department; (b),(c) and (d) are the informational roles while (e) is the decisional role performed by a Manager.	< TOP >
8.	B	Right option is (b) as growing markets reduce pressure on firms to take customers from competitors. All other options are correct with regard to industry growth.	< TOP >
9.	E	Right option is (e) as (a) and (b) are balance sheet risks and (c) and (d) are Transaction risks.	< TOP >
10.	E	Right option is (e) as Leader's ability to deal with subordinates or followers in a confident, calm and empathetic manner is referred to as Emotional Stability.	< TOP >
11.	E	Right option is (e) because advances in technology have also reduced the need for specialization and standardization. This is because people using advance information processing technologies have to do work that requires a broad understanding of how organization gets it's work done.	< TOP >
12.	C	Right option is (c) as 'know how' aspect includes the procedural knowledge relating to banking. All other options are correct. The' know what' aspect is related to the business realities.	< TOP >
13.	E	Right option is (e). The various types of strategic change are: Re- engineering, restructuring and Innovation.	< TOP >
14.	D	Right option is (d) as committed personnel can design a superior product with support from leadership working in a decentralized environment. All other statements are correct with reference to a Product and TQM.	< TOP >
15.	C	Right option is (c) as the Government, investors and employees are linked with the organization through explicit contracts, other stakeholders like customers are linked through implicit contracts. All other statements are correct with respect to stakeholders in the organization.	< TOP >
16.	A	Right option is (a) as it is the only productivity ratio and all other options relate to business ratios.	< TOP >
17.	C	Right option is (c) as BIFR and SICA enactment came into effect during the consolidation phase which refers to the period from 1984 till 1991. All other statements are relevant to Reform phase in India which began from June 1991.	< TOP >
18.	C	Right option is (c) as both statements (III) and (IV) are wrong. An un attractive industry has strong competitive threats from product substitutes and intense rivalry among competitors.	< TOP >
19.	A	Right option is (a). As a disturbance handler, the manager responds involuntarily to pressures. Examples of various pressures could be worker strike, declining sales, bankruptcy of a major customer etc; (b), (c) and (d) are informational roles and (e) is interpersonal role.	< TOP >

20. E Right option is (e) as this Leader participation model involves the use of decision tree, requiring ‘Yes’ or ‘No’ answers. It incorporates contingencies about task structure and alternative styles of leadership. < TOP >

21. C Right option is (c) as the quality of courageous outlook refers to the perseverance to accomplish goals regardless of seemingly insurmountable obstacles. Leaders are confident and calm even under stress. In financial terminology, this refers to the risk factor. Naturally, bankers will have to take a calculated risk if they are to earn more than their competitors. < TOP >

22. E Right option is (e) because the process of identifying, assessing, controlling and financing risk must be common across the enterprise. < TOP >

23. E Right option is (e) as the design dimensions for an organization are formalization, centralization, specialization, standardization, complexity and hierarchy of authority. < TOP >

24. C Right option is (c) as in India, banking sector is a part of the corporate sector, but not necessarily totally corporate. The reason being that a major position of the banking sector is government owned. Public sector banks are leading players in the business. All other statements relevant to corporate governance are correct. < TOP >

25. B Statements given under (II) and (III) are wrong (I) and (IV) are correct and hence right option is (b). < TOP >

26. D Right option is (d) as in the Disseminator role, after collecting the information, the Manager has to pass some of the information to his subordinates. The Manager’s role becomes important when the subordinates do not have contact with one another. (a),.(b),and (c) are interpersonal roles while (e) is decisional role. < TOP >

27. E Right option is (e). Diversity among firms sometimes causes a company to take certain competitive actions just to see what the competitors’ responses will be. Doing this can improve the firm’s ability to predict competitors’ future actions. < TOP >

28. A Right option is (a). (b) and (c) are Transaction risks. (d) and (e) are operating and liquidity risks. < TOP >

29. E Right option is (e) because all the statements (I), (II), (III), (IV) constitute the reasons for the high degree of interest and stakes for the government in the banking sector. < TOP >

30. E Right option is (e) as transformational leaders are charismatic and visionary. They can inspire followers to transcend their self interest in favor of organization’s interests. Transformational leadership is strongly correlated with low turnover rates, high productivity and high employee satisfaction. < TOP >

Section B : Problems

1. Eliminating Fraud < TOP >

Eliminating fraud is important for the banking industry for three reasons:

- Fraud is considered as a criminal activity by society, and the criminal justice system becomes operative instead of individual privacy.
- Investigation of a fraud does provide rights to both the banker investigating the fraud and the individual/s who committed the fraud to have the right to privacy.
- Frauds committed on banks increase costs to the banks and affect their net worth.

Bankers enjoy the right to know the criminal behavior of fraudsters who affect their business. Roper Starch Worldwide Inc., a US-based firm, conducted a survey on the elimination of fraud. It found that 74% of respondents were willing to contribute extra money for fraud investigation and prosecution. This tendency has also been confirmed by another survey conducted by MasterCard International. This survey revealed that customers were prepared to forgo privacy if that could help to protect them against fraud.

Investigation of fraud by banks is a quasi-public service. In this context, the ethical behavior of investigators has to be judged against the ethical standards set for public officials conducting similar investigations and prosecutions.

Banks must use any adversarial information to overcome individual privacy in pursuit of social good. There will be conflicts however, when banks combine data gathered for different purposes. One such example is that data in customer service records are combined with screening out data. Thus, it is difficult to concentrate both on the interest of the consumer and the interest of the bank simultaneously. In this conflict, the interests of the bank shall always dominate.

2. Effects of Unethical Behavior

< TOP >

Unethical behavior distorts the market system that leads to inefficient allocation of resources. Some effects of unethical behavior viewed from the macro perspective are discussed below:

- **Bribery:** A bribe is associated with a personal gain to the decision-maker and is used for the purpose of making one choice appear more attractive than the other. Though the decision-maker's attraction towards the final choice is determined by the bribe, he may still be not satisfied with the choice. The negative effect of bribery is that it causes more resources to be allocated to a less desirable alternative. If bribery is the motivating factor for doing a service like disbursal of credit, it causes distortion in allocation of resources.
- **Deception:** The effect of deceptive information is that it creates false impressions about goods and services and forces buyers to purchase goods and services that may not satisfy them. Deceptive information sometimes affects timely delivery of goods and services. Such delays in the delivery of goods and services results in disruptions in production leading to higher costs in output. Deceptive information also distorts the market system by allocating resources to items that are to be sold or delivered rather than offering the goods and services that the customers really desire. Banks should be careful while explaining the actual facilities that can be realistically provided to the customers.
- **Coercion:** The exercise of power and influence through a coercive act decreases the effectiveness of competition. The effect of coercive acts is reflected through the acts of sellers who are refrained from dealing with certain customers and buyers who are prevented from purchasing from certain sellers. As a result, buyers purchase inferior goods and services by paying a higher price; such activities would effectively lower the demand for goods and services. Coercion cripples competition, which leads to the production of inferior goods and services. On the other hand, since buyers have no other choice except to purchase such goods and services, they would feel dissatisfied. In banks, it is a normal practice for customers to go for a change in banks for availing better service. Under such circumstances, banks are not expected to use coercion on the customer to continue their operations.
- **Theft:** The act of theft increases the cost of production of products and/or services. Losses arising out of theft are made up by increasing the price of products and services. The consequent reduction in demand results in misallocation of resources. At the extreme level, high-degree of theft may force the company to withdraw its products or services from the market. Thefts of numbered instruments in banks like demand drafts can cause severe inconvenience to the customers.
- **Discrimination:** Unfair discrimination is the denial of normal privileges due to certain people on the basis of their gender, ethnicity, race, religion, etc. Though unfair discrimination is banned by law, there are certain sellers who deny goods and services to certain buyers for some reasons as mentioned above. Lending to borrowers under priority sector is a major area where bankers are to show proper judgment and not discriminate against customers. Bribery, deception, coercion, theft and discrimination contribute to an increase in the cost of goods and services. These acts also contribute to the misallocation of the country's resources. Based on this analysis, we can state that ethical behavior is a prerequisite for the effective functioning of a market system in general and the banking system in particular.

3. TYPES OF RISKS

< TOP >

Various types of risks are:

- Change Management Risk
- Operational Risk
- Liquidity and Funding Risk
- Financial Risk
- Credit Risk
- Poor Governance Risk.

Poor Governance Risk

This risk arises as a result of poor corporate governance, wrong organization structure and inappropriate human resource policies. Ideally, a bank's policy for managing Governance, People and Organization risk are to be set out in the bank's policy manual.

A bank, depending upon its business priorities, should organize itself into different -business units. Such units should be run in a manner consistent with strategic directions from the top management.

The business units should focus on tight financial and operating controls and prudent risk management. Various industry best practices on corporate governance should be implemented. Emphasis should be laid on the importance of conducting business with integrity, due skill, care and diligence.

The Board of Directors and the senior executives at different levels should receive information regularly in line with business objectives. It has to be ensured that activities are appropriately controlled, key risks are identified and monitored, decisions are implemented and all regulatory obligations are met.

Audit control enables an independent review with regard to adherence to the policies and processes that are to be implemented. The head of the Audit department should meet the branch managers on a regular basis and should also interact periodically with the Audit Committee. The branch managers should ensure that all the staff members act with integrity. The employees must be encouraged to alert the branch manager and the controlling offices in case of suspected misconduct, fraud or any other serious malpractices.

4. PRACTICAL BENEFITS OF ERM < TOP >

An ERM model strengthens the bank's ability to identify and assess risks; aggregate risks and define the corporate risk appetite; develop solutions for reducing or transferring risk, where appropriate; and exploit risks to generate competitive advantage.

Banks need an ERM framework to relate capital reserves more effectively to their actual level of risk exposure. By aggregating and analyzing risk by type and across lines of business, they will be in a position to quantify the amount of capital required to absorb unexpected losses.

ERM also contributes to a better business performance for the bank's clients in all industries. Net income and return on investment or equity are commonly used to compare business performance, but they do not consider the level of risk taken to achieve those results. However, a Risk-adjusted Rate of Capital (RAROC) can be determined by dividing a unit's net income by its economic capital, producing a profitability measure that is common across business units. A risk-adjusted return that is more than the cost of the related economic capital employed contributes value to the organization and its shareholders. The RAROC approach can also be extended to evaluate pricing decisions and product profitability, and to differentiate between relationships that make money for an institution and those that do not.

RAROC is also an important factor in making risk transfer decisions against a policy that establishes the level and types of risk an organization is willing to absorb and the content of its risk portfolios. The benefit of potential risk transfer strategies can be determined by comparing the potential decrease in economic capital and risk of loss against the cost of insuring or hedging the position.

5. Banking and Finance in the Pre-reform Period < TOP >

At the time of independence, saving and investment in India were low and only two-thirds of the economy was monetized. Net domestic saving as percent of Net Domestic Product (NDP) at market prices was only 9.3 percent in 1960-61, which rose to 11.8 percent in 1969-70 (Reserve Bank of India, 1978). The saving mobilization was on the household sector as other sources were limited. Most of the savings of household sector was in the form of financial assets, and bank deposits dominated the financial asset portfolio of households.

The major objective of bank nationalization in July 1969 was to intensify the social objective of ensuring that financial intermediaries fully met the credit demands for productive purposes. Two significant aspects of nationalization were (i) rapid branch expansion, and (ii) channeling of credit according to plan priorities. So banks had to expand in such areas, which were not covered previously. The purpose was not only to increase potential savings but also to meet the credit gaps in agriculture and small-scale industries so as to increase the economic activity. This was augmented when the Lead Bank Scheme was introduced in December, 1969 for the purpose of mobilization of deposits for planned expansion of banking facilities and to bring about greater regional balance. In April 1980, six more private sector banks were nationalized. However, these measures also resulted in inefficiencies in the banking system. The administered interest rate structure was high, and so was the Cash Reserve Ratio (CRR) and also the Statutory Liquidity Ratio (SLR). The structure of administered interest rates has gradually been dismantled. Prescriptions of rates on term deposits, including conditions of premature withdrawal, have been dispensed with. Lending rates have since been gradually deregulated. The Bank Rate, which had for long remained a dormant policy tool, was activated in 1997 as a signaling rate and the entire spectrum of interest rates for any refinance or liquidity support from the RBI, have since been linked to the Bank Rate.

Firstly, the market for short-term funds was reserved for banks and the market for long-term funds was the exclusive domain of Development Financial Institutions (DFIs). Direct access of corporate borrowers to lenders (disintermediation) was strictly controlled and Non-banking Financial Companies (NBFCs) were allowed to collect funds only for corporates. These adverse developments coupled with the balance of payments crisis, which followed in the wake of the Gulf War of 1990 led to the erosion of public savings and the inability of the public sector to generate resources for investment rapidly brought forth the imperatives for financial sector strengthening in India. Although these reforms were also provoked by the globalization trends around the world almost around the same time, there was a distinct Indian flavor in the pace, sequencing, caution and complementarity. The Indian approach to financial sector reforms was cautious and focused on proper sequencing by complementing between reforms in banking sector and changes in fiscal, external and monetary policies; developing financial infrastructure; and developing financial markets. This approach is in contrast with the 'big-bang' approach pursued in several countries. This gradual approach is credited with the advantage of enhancing macro stability, and at the same time, fostering the microeconomic linkages. And, the gradualism was the outcome of India's democratic structure and was based on a popular consensus. While the crisis of 1991 favored bolder reforms the pace had to be calibrated to what would be acceptable in a democracy. Secondly, structural adjustment measures were undertaken in simultaneity with liberalization program. Thirdly, macroeconomic stability was made a priority. Fiscal and external sector policies supported the monetary policy in maintaining overall balance. Prudential regulations were put in place to ensure safety and soundness, while transparency and accountability in operations were aimed at restoring the credibility of the banking system. Fourthly, recognizing the inter-linkages between the real and financial sectors, wide-ranging reforms were also undertaken in the real sector so that financial intermediation kept pace with underlying economic activity.

6. EFFECTS OF THE REFORMS < TOP >

The recommendations of the Narasimham Committee in 1991 heralded the first generation reforms of the financial system. While these reforms were being implemented, the world economy also witnessed significant changes, 'coinciding with the movement towards global integration of financial services' (Narasimham Committee, 1998). Against such backdrop, the Report of the Narasimham Committee II (NCR-II) on Banking Sector Reforms provided the framework for the current reform process.

Firstly, the impact of reforms is evident in both the widening (as reflected in the financial interrelations ratio) as well as the deepening (as evidenced by the intermediation ratio) of the intermediation process and well as its positive influence on growth. In addition to banks, various other intermediaries, including financial institutions, mutual funds and non-banking financial companies, are also engaged in the process of intermediation.

Secondly, the statutory pre-emptions have gradually been lowered. This has enabled banks to commit a greater quantum of resources for commercial purposes.

Thirdly, the administered interest rate structure of banks, both on the deposit and lending side, has been progressively rationalized. Fourthly, steps have been initiated to strengthen PSBs and infuse competition into the banking system. To increase competition, new banks in the private sector have been allowed to enter the industry and foreign banks have been given more liberal entry. In addition, measures have been taken to broaden the ownership base of PSBs. Banks have been given flexibility to rationalize their branch network. Fifthly, with regard to prudential requirements, norms for Income Recognition and Asset Classification (IRAC), introduced in 1992, have been strengthened over the years in line with international best practices. As regards IRAC norms, the time for classification of assets as non-performing has been tightened over the period, with a view to move towards the international best practice norm of 90 days.

Sixthly, the banking system has attained greater transparency. This applies both to prudential norms (disclosure of capital adequacy ratios - tier I and tier II separately, net Non-performing Assets (NPAs) ratios, provisions and more recently, the maturity profile of loans and advances, investments, movements in NPAs and lending to sensitive sectors, such as capital market, real estate and commodities) as well as securities portfolio. Public Sector Banks (PSBs) began attaching the balance sheet of the subsidiaries to their balance sheets beginning from 2000-01, to bring greater transparency in operations and move towards consolidated supervision. In addition, the introduction of asset-liability management practices since April 1999 (subsequently extended to financial institutions), fortified with the enunciation of risk management guidelines covering broadly the areas of credit, market and operational risks have enabled banks to have a clearer idea of their mismatches and undertake preventive steps.

By 1997-98, there was a significant improvement in the performance of the banking system.

The profitability of PSBs showed a distinct improvement, measured in terms of operating profits. Reflecting the efficiency of the intermediation process, there has been a decline in the spread between the borrowing and lending rates as attested by the ratio of net interest income to total assets from 3.22 percent in 1991-92 to 2.70 percent in 1999-2000. Seventhly, the liberalization measures have permitted a refocusing of supervisory strategy from one of micro-management to one of macro-governance with the establishment of a quasi-autonomous Board for Financial Supervision (BFS) in 1994. The supervisory strategy of the BFS consists of a four-pronged approach, including (i) restructuring system of inspection, (ii) setting up off-site surveillance, (iii) enhancing the role of external auditors, and (iv) strengthening corporate governance, internal controls and audit procedures. Detailed off-site surveillance of banks, financial institutions and NBFCs is based on a quarterly reporting framework covering mandated aspects of liquidity, solvency and asset quality. It has been combined with on-site inspection, based on the evaluation of total operations and performance of banks under the supervisory rating framework based on the CAMELS (Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Systems) methodology for Indian commercial banks and CACS (Capital Adequacy, Asset Quality, Compliance and Systems) for foreign banks. The role of external auditors has been enlarged: besides auditing annual accounts, they are required to verify and certify financial ratios to be disclosed in the balance sheet. This has enabled regulators to have a clearer understanding of the true financial position of banks and take remedial measures, as warranted.

Eighthly, having an institutional architecture in terms of markets, technological and legal infrastructure is a pre-requisite for the efficient functioning of markets. Since 1997, efforts to develop and fortify the domestic financial architecture have been intensified, albeit with a distinct country-specific approach. Several new initiatives on the technological front such as the setting up of the Indian Financial Network (INFINET), a Wide Area Satellite based Network using VSAT technology, Shared Payment Network System, initiatives for Electronic Fund Transfer have already been undertaken. A Real Time Gross Settlement (RTGS) system, with system requirement specifications to take into account international best practices and the specific requirements of Indian banking is being started. Ninthly, the changes in the policy environment have been supplanted with changes in the conduct of monetary policy and financial markets.

A brief encapsulation of the salient features of the monetary policy: The monetary policy framework followed in India from mid-eighties till 1997-98 was by and large a 'monetary targeting' framework, with broad money being the intermediate target. However, the deregulation and liberalization of financial markets and increasing openness necessitated the adoption of a 'multiple indicator' approach in 1998-99, wherein interest rates or rates of return in different markets (money, capital and Government securities markets) along with high frequency data on currency, advances by banks and financial institutions, fiscal position, trade, capital flows, inflation rate, exchange rate, refinancing and transactions in foreign exchange have been juxtaposed with output data for drawing policy perspectives. While the twin objectives of monetary policy of maintaining price stability and ensuring availability of adequate credit to productive sectors of the economy to support growth have remained unchanged, the relative emphasis on either of these objectives has varied over the years depending on the requirements of the macro-economy. With the change in the institutional context of conduct of monetary policy pursuant upon the adoption of Ways and Means Advances (WMA) in 1997, indirect instruments of monetary control have come to the fore.

Consequently, the thrust of monetary policy in recent years has been on the use of instruments in a more flexible and bi-directional manner. A Liquidity Adjustment Facility (LAF) has been introduced since June 2000 to modulate short-term liquidity and signal short-term interest rates. The LAF, in essence, operates through repo and reverse repo auctions, thereby setting a corridor for the short-term interest rate consistent with policy objectives. This has been supplanted with wide-ranging reforms in the financial markets.

7. LEADERSHIP QUALITIES

< TOP >

Researchers have tried to identify some of the main traits that distinguish leaders from non-leaders and successful leaders from unsuccessful ones. They evaluated cognitive and psychological factors, physical characteristics and many other parameters while arriving at their conclusions. On the basis of these traits and qualities, they have developed different theories of leadership.

Some common leadership qualities are:

- **Emotional Stability:** This refers to the leaders' ability to deal with subordinates or followers in a confident, calm and empathetic manner. Business matters can create tension and ill-will. Bankers should maintain poise particularly while dealing with difficult customers who may be demanding too much or who may be a loan-defaulter.
- **Knowledge of Human Relations:** This refers to the leader's understanding of human behavior, needs, emotions, feeling, etc. Banks recognize the importance of understanding human behavior and provide certain special services such as all-ladies branches, special counters maintained at off-site places and at odd-hours to meet the specific needs of students.
- **Empathy:** This quality enables a leader to look at things from another person's point of view objectively. CRM is all about putting oneself in the other man's shoes. Bankers without exception recognize its importance.
- **Objectivity:** This refers to the leader's ability to take practical decisions. Particularly, while taking a credit related decision, bankers remain objective and in spite of various other factors, a balanced and considered decision is taken whether or not to sanction a credit facility to the proposed borrower.
- **Personal Motivation:** This quality refers to the leader's enthusiasm for getting the job done through his followers. In simple words, the branch manager himself should enjoy his assignment and infuse enthusiasm amongst his staff.
- **Communication Skills:** These refer to the ability to speak and write in an articulate and forceful manner. The banker's ability to canvass new accounts and convince customers is determined mainly by his communication skills.
- **Teaching Ability:** This quality enables a leader to inspire followers. There are different types of accounts and businesses performed in a bank. A majority of staff are not aware of different functions within a branch/bank. When a person takes charge of a new function, the leadership at the branch level/bank must ensure that the employee becomes knowledgeable and is also trained to discharge his duties effectively.
- **Social Skills:** This helps a leader understand the followers' strengths and weaknesses. It also makes a leader appear approachable. In other words, maintenance of cordial relations with staff and customers is possible if a branch manager understands his colleagues and customers.
- **Technical Competence:** This gives the leader working knowledge of and an insight into operations carried out under his guidance. For example, in matters relating to credit appraisal or maintenance of computer systems, the concerned supervisor must possess the technical competence for taking a decision. Otherwise, it could lead to failure.
- **Physical and Nervous Energy:** These are the physical qualities that are needed for the leader to work effectively and enthusiastically under stress and strain. Naturally, leaders must possess and display abundant physical energy and must be able to work under stress. Pressures from various quarters like customers, staff and superiors can make the manager's job difficult if he does not enjoy the physical strength to deal with such pressures.
- **Persuasiveness:** This refers to the ability to persuade another to agree with one's point of view. Leaders possessing this quality can get their work done easily. Service industry thrives on the art of persuasion. This could be with regard to marketing a bank's product or dealing with an irate customer or even a colleague.
- **Creativity and Vision:** This refers to the ability of leaders to anticipate the future. In view of a very high level of competition between banks, they have become innovative and are offering unique products and also giving unique names to such products.
- **Inspirational Ability:** This refers to companies of physical and mental qualities that give a leader the ability to inspire their followers to action. This is an absolutely personal quality and the extent of inspiration that a manager can provide to his colleagues depends on one's ingenuity.
- **Imaginative Mind:** Imaginative leaders can devise new goals, ideas and solution to problems. As different problems have different kinds of solutions, managers look to solve problems differently. For instance, a similar problem of two different customers

may be solved in two different ways, and both may return satisfied.

- **Courageous Outlook:** This refers to the perseverance to accomplish goals, regardless of seemingly insurmountable obstacles. Leaders are confident and calm even under stress. In financial terminology, this refers to the risk-factor. Naturally, bankers will have to take a calculated risk if they are to earn more than their competitors.

8. The Affiliative Style < TOP >

The affiliative leadership style focuses on people. It lays more emphasis on individuals and their emotions than on their tasks and goals. An affiliative leader keeps his employees happy and creates harmony among them. This style promotes camaraderie through better communication and sharing of ideas. The employees also have more flexibility in doing their work.

An affiliative leader motivates subordinates through positive and continuous feedback. He also expresses his emotions openly, thus building relationships naturally, without conscious effort on his part.

The affiliative style also has its limitations: Its concern for relationships can allow the poor performance of some employees to go unchecked or uncorrected. Excellence suffers as employees begin to feel that mediocrity will be tolerated. This style works best if used in conjunction with the authoritative style.

The Democratic Style

A democratic leader listens to the opinion of his subordinates to win their trust. He gains their respect and commitment by spending time with them, getting new ideas from them and building consensus on issues.

When subordinates participate in the decision-making effort and know that their opinion is valued, their motivation to achieve goals increases. A democratic leader creates a work culture in which followers are aware of the realities of the situation and know what can or cannot be accomplished.

Democratic leadership is ideal when the leader needs to have more information, ideas and guidance. A democratic style may signal a leader who is unsure of himself, or may be the hallmark of a very competent leader. This style too has its limitations: frequent meetings, opinion gathering session and diverse opinions may lead to situations where consensus may not be achieved. The effectiveness of the style depends on the competence of the subordinates and the leader's ability to accurately assess the value of their opinions.

Section C: Applied Theory

9. Personal qualities as the recipe for success are: < TOP >

- **Future thinking and ability to face uncertainty:** A sensible and a successful entrepreneur/banker exhibits good understanding and ability to adjust for difficult situations.
- **Patience and perseverance:** Successful entrepreneurs are normally willing to work long, hard hours and willing to weather the highs and lows of business. To successfully procure more business employees/agents would be required to work at odd-hours and on holidays and under oppressive conditions. Bankers today conduct customer contact exercises in road-side tents, on holidays, in market centers or during melas.
- **Love challenge and are driven by a need to challenge one's self:** The very fact that banks are able to survive in this era of higher costs and lower spreads is an ample indication of the fact that bankers today indeed are driven by challenge.
- **Ability to conceptualize:** As natural leaders, entrepreneurs unlike others find and solve problems quickly. They are used to uncertainty and ambiguity. Hence, they do not feel uncomfortable when confronted with such issues.
- **High tolerance for ambiguous, unstructured situations:** The fact that the bankers' services are aimed at a wide range of customers and that customers' needs are varied puts pressure on bankers to serve and also sets the tone for ambiguity in decision-making and unstructured decisions. Successful managers overcome this problem,
- **Emotionally Stable:** A successful entrepreneur is emotionally stable and under control to handle any business pressure. To them, stress is not unwelcome, since they find setbacks to be more challenging rather than discouraging. Such persons are always on the go and need constant activity to vent their energy.

- **Possess a desire for change and constant improvement:** Employees/agents frequently monitor social trends and adopt new products. For instance, of late the emerging importance of educational loans has been recognized and implemented by most banks.
- **Action-oriented:** The need to perform and survive has encouraged multi-faceted action programs.
- **Think positively and quickly get over their failures:** Weak banks in particular have emerged stronger. Dena bank, Syndicate Bank, Indian Bank prove that positive thinking and putting failures behind are key factors for success.
- **Learn quickly, enjoy feedback, and are able to learn from mistakes:** Implementation of technology based delivery systems like ATMs and Internet banking, introducing and improving deposit and loan schemes and implementing Risk Based Supervision are developments to substantiate this aspect.
- **Both listen and communicate well:** The importance to deliver extremely good customer-service both across the counter and through back-office operations is reinforced with the bank managements attaching increased significance to this segment of banking operations.
- **Independent and extroverted:** The banker needs to take decisions and demonstrates independence in decision-making and the fact of meeting customers' requirements brings out the extrovert in the banker.
- **Self Discipline:** This quality is very much evident as entrepreneurial zeal creates fiercely independent people. Such persons do not like others telling them what to do. Branch mangers possessing this quality take decisions and own the responsibility for such decisions.
- **Self-confident and determined to succeed:** A successful banker also demonstrates these basic qualities of a good entrepreneur.
- **Creative, innovative and open-minded:** The history of changed scenario in the banking industry as seen during the post nationalization and post liberalization eras have brought the best out of successful bankers during this period.
- **Status:** Successful executives are uncomfortable with personal praise. They love having their business praised. Such persons have the eye for status in the performance of their business, and not just in the outward appearance that they present to others. Importantly, their ego does not prevent them from seeking advice or guidance from others.

The various business and managerial skills are:

- **Ability to set realistic attainable goals:** A bank that specializes in a particular service or product attaches more importance to such strengths in business planning.
- **Love to take risks, but ensure that these risks are calculated, not foolish:** Obviously, the level of NPAs is a major factor that influences the results of a bank. Hence, banks look to take all precautions and steps to maintain good asset quality.
- **Competent enough to make strategic decisions during uncertainty:** The banker can work on a number of things simultaneously, keeping all details and possibilities in mind, while being conscious of the need to complete tasks immediately.
- **Able to exert influence and inspiration on others without a need to impose status or power:** The successful manager is able to get along with his colleagues and customers without being inaccessible.
- **Able to get along with and adapt to all types of people:** The basic skill of adaptability to different situations and people is reflected as bankers deal with a wide range of customers and services.
- **Interpersonal interaction:** they develop interpersonal skills for growth of business. The absence of these skills would create a negative impact on the staff as leaders would then not be able to delegate, become impatient and lack sensitivity.
- **Able to trust others and give out responsibility:** Significantly, the banking industry survives on the mantra of 'good faith'.
- **Possess good communication skills:** The highly competitive environment persuades a banker to bring the best out of him both in terms of oral and written communication, whether with the customers, staff or other stakeholders.
- **Possess general financing, production, administration, human resources, sales and marketing skills:** All these skills are a mix of specialized and general skills. Banks

attach lot of importance to the cultivation of these skills in the employees. Many training programs are held based on these contents.

10. Product < TOP >

The product is a focal point for the organization's purpose for existence. A product is in line with an organization's mission and goals. The organization derives a sense of achievement through the product. The success or failure of a product can also be a measure of organizational effectiveness.

For making a superior product, TQM envisages a group-centered approach on the part of personnel involved in its creation. Committed personnel can design a superior product with support from the leadership, working in a decentralized environment.

For creation of superior quality products, organizations need employees with a product-mindset who focus on the product instead of the job. The group-centered approach fosters a feeling of pride and common purpose through team effort. The feeling of pride follows from the joy of creating the product, and the sense of common purpose further reinforces team spirit. As a result, work gets better and the organization achieves total quality.

The development of a superior product basically requires collaborative efforts, support from top management and a continuous feedback.

Process

Superior products alone cannot fulfill organizational goals. For this, additionally an effective process that has an interface with the customer and product is required. In a bank, TQM should aim to deliver the right product to the customer through cost-effective and quality-tuned processes following a customer-centric approach. Hence, customer focus is essential in designing the product and the process in TQM.

Organizations try to deliver an assortment of products as customer needs and wants keep changing. This calls for different yet effective processes that can deliver such products. Therefore, the processes need to be customer and product focused. Thus, TQM follows a customer-product-process-product-customer cycle.

Effective processes in TQM begin with 'doing it right the first time'. As a result, wastage of time, money and other resources cease to exist since the product attains the desired quality level in the first instance itself. The process pillar can get strengthened with support from the leadership and employee commitment. For measuring the effectiveness of the process, an array of tools such as Statistical Process Control, benchmarking, PERT, histogram and Quality Loss Function are used.

Leadership

The successful implementation of the TQM program is determined to a great extent by the leadership in an organization. This is due to the reason that only a determined top management can effectively lead the change to a total quality mindset.

Leadership guides how to organize and build competence, creativity and commitment to the entire quality program. The importance of leadership in the TQM process can be better understood, by differentiating between leadership and managership. Leaders with vision and zeal chart a course for their followers or teams and change the concept and structure of the organization. Leaders do the right things. Managers do things right, and are bogged down by the technicalities of the process.

Managership is responsible for the implementation-process and leadership is essential to implement the process successfully. As mentioned earlier, leadership should empower employees by decentralizing the decision-making process. Instead of following a completely top-down approach, a successful organization fosters employee commitment and participation. Decentralized leadership that fosters human and social values is ideally suited for TQM.

Commitment

Commitment from leaders and employees alike is necessary to achieve a goal. It also encourages achieving superior quality and higher productivity. Leaders who lack committed followers are bound to fail. The leaders need to build committed followers through empowerment and decentralization.

Securing employee commitment to the process of TQM through an attitudinal change in them made possible by suitable alterations in the organizational structure, practices and policies. At the outset, a desire for the TQM process has to be created and nurtured in the employees before building their commitment to quality. Fostering pride in work, workmanship and motivation can do this. Adequate importance needs to be attached to compensation issues of employees, such as linking pay to their performance and productivity.

TQM cannot be successful without commitment from the employees. Employees not only need to do it right the first time, they also need to 'believe' in doing it right the first time. The organization has a primary role in educating employees to the need of change to TQM and the benefits of TQM. Bill Creech, in his book The Five Pillars of TQM, talks about the role of organization in educating employees on the need to change to TQM: "You put the business in their (employees) hearts and they will put their hearts in the business". The process of putting the business in their heart is convincing them of the need for change to TQM. He emphasizes the importance of teamwork and common purpose by stating that the results of the joint efforts should be shared. A share in the success is vital for employee commitment as it motivates them to perform better. Success and rewards of TQM can be shared by devising suitable short-term and long-term plans that consider employees as one of the key stakeholders of the company.

11. a. **SALES FORCE AUTOMATION** < TOP >

Sales Force Automation (SFA) is an information system that enables companies to acquire and retain customers. It increases the speed of managing or selling accounts, and helps the salespersons to redesign their activities to enable them to provide better services to customers. Staff members, agents and brokers sell bank's products and act as salespersons for the banker. If there is a large network of agents, bankers can adopt SFA to minimize the activities involved in selling banking products or services to the customers. SFA serves the following purposes:

- **Increased revenue:** It increases revenues as it reduces the costs involved in administrative as well as sales activities.
- **Reduced cost of sales:** The successful implementation of SFA largely depends on the reduction in cost of sales. Field level staff spends more time in making continuous and repetitive data entry. Sometimes, they make unsuccessful attempts to extract and interpret data without having the required tools. The cost of sales is reduced when the time spent on administrative and other non-sales-related efforts is reduced.
- **Increased mobility for the sales force:** The field staff requires increased mobility as they are usually out of the office to meet customers and prospects. Their mobility can be increased by using Personal Digital Assistance (PDA), wireless applications, and converging the web and phone, thereby reducing the frequency of their visits to the headquarters to report their everyday activities. The more customers the salespersons can meet, the more advantageous it is for the organization. As mobility has become an important aspect for gaining a competitive edge, organizations provide mobile tools such as hand-held sets with Internet connectivity, to their field staff.
- **Easily available customer with a single view:** Bankers have various departments such as the deposits department, the credit department and the accounts department, and so on. The credit department may wish to see the status of the account with regard to the end-usage of the funds lent by the bank, while the accounts department may be interested in seeing the status of the bills that are being negotiated. The staff may be interested in managing the customer accounts. SFA enables each department to view the data individually and simultaneously without any interruption.

b. **ON-S1TE INSPECTION AND OFF-SITE MONITORING IN INDIA**

RBI, as the Central Bank has the responsibility to supervise banks, under the Banking Regulation Act, 1949. It has been inspecting banks with the objective of assessing their financial and operational conditions and the quality of management. The major effort has been towards ensuring the safety and soundness of the Indian Banking System. On-site inspection of banks and off-site monitoring are in fact, the two most important ways of monitoring the banking system. On-site inspection is usually carried out on an annual basis. Besides the head office and controlling offices, certain specified branches are covered under inspection so that a minimum coverage of advances is ensured. The primary objective of off-site surveillance is to monitor the financial health of banks particularly during the period between two on-site inspections.

In many countries the Central Bank takes up the function of supervision of banking and other financial institutions. In a few countries regulatory organizations have been set-up to exclusively perform the supervisory functions. A few countries rely on off-site surveillance, while some other countries rely on on-site inspection. How the perception is different, is borne out of the fact that in USA, on-site inspection is an important tool for bank supervision whereas in New Zealand, off-site monitoring is considered as the most important. However, in most of the countries irrespective of the structure of regulatory set-up, the major tools of bank supervision are both on-site examinations coupled with off-site surveillance. In India, the supervisory process early on was dominated by on-site examination and incidentally very little information was available about the financial health of the banks, in between on-site examinations. Thus, the need to introduce off-site returns in the supervisory process was felt, which in fact changed the method of supervision itself. Supervision in India is now a combination of on-site inspection and off-site surveillance with on-site inspection being the more preferred one.

< TOP OF THE DOCUMENT >