

# national institute of business management essay sample

[Literature](#), [Russian Literature](#)



1. Explain the non-negotiable areas of labour management in an enterprise to see how the objective of efficiency and stability were carried through.
2. Explain performance budgeting exercise as a tool for deposit mobilization.
3. Explain the factors the branch manager has to take into account at the time of preparation of the budget.
4. Write an essay on Globalization in the Banking Industry.
5. Examine the economic functions of banks.
6. Explain Fractional-reserve banking.

25 x 4= 100 marks

#### Answers

2. Explain performance budgeting exercise as a tool for deposit mobilization.

Performance budgeting can be defined as budgeting for the performance of an individual or an organization. In the context of an organization what is required is to set some broad objectives for the organization at the top management level and motivate the employees in such a manner that they also feel like setting some individual goals, which are nevertheless complementary to the goals for the organization. Performance budgeting exercise is elucidated in the below steps: 1. Defining the Commanding Area:

The concept of command areas is a highly dynamic one, having relevance only to a particular budget year. This means that the command areas of branch need not be the same for all years on the other hand, it should be changed as and when the branch has tapped the full potential of the area.

Again there is another wrong concept about the command areas that it should be geographically contiguous areas around the branch. Actually the command areas of a branch should be the possible main areas, which the branch can effectively serve during the particular years, as felt by the branch manager and the staff. Thus branch can have as its command area, a whole village, a ward, a street of a town, a big building housing several offices, etc. of course this does not mean business from other areas is not welcome but only that our main thrust will be in this area.

## 2. Environmental Scanning and Market Segmentation:

Environmental scanning really means scanning the branch environment, both inside and outside. Often we tend to ignore the internal factors as we understand it today, this involves identification of the market and its potential, the evaluation and selection of this market after it is segmented.

But let us try to look at it from a different angle. a. The Internal Factors:

There are three important factors to be considered under this head they are:

Employees of the branch - human resources

Non human resource - infrastructure

Top management - the controlling offices

It is a fact the branch management can realize its goals only through the active co-operation of the staff working in the branch and the administrative offices. There a fair knowledge of the nature of staffs their aspirations and problems will help branch manager to take them along with his as team to achieve the goals. Naturally, he should interact with them as frequently as possible. The manager should also try to create good rapport with higher

authorities. For this is should properly communicate with them regarding this action plan and feed them with sufficient data at the appropriate time. He must work in close liaison with them so that he can strengthen his hand and try to avoid origination conflicts and help himself to take quick and sound decisions consistent with the policies of the bank.

Then comes the assessment of the infrastructural facilities available in the branch. The goals set for the branch should be possible to be achieved with the available infrastructure thus we can very well see that non achievement of budgetary goals cannot be ascribes to staff shortage, if the spirit of the performance budget is properly understood. b. The External Factors:

Four important factors under this head

National plan objectives and government policies

Aspirations and expectations in the command area

Customer satisfaction

Handling competition from rivals

The national plan objectives are normally given in the policy guidelines book published by the central office, planning department. These should be through at length. The prime function of bank is to accept deposits from those with surplus money and lend it to those who need it for productive investment. This necessitates the identification of pockets of potential deposit on the one hand and identification of person who need advance for productive purposes, on the other. Collection of these data is very important and it has to be done methodically. These data can be used to: 1. Segment the market according to various parameters.

2. Prepare bankable schemes for various segments and

3. It is better that these data are collected and kept updated frequently.

Regarding customer satisfaction, we have to ensure that the primary motto in formulating any scheme is the satisfaction of the customer. We have to worry about the competition from other financial institution and fellow bankers. For this we have to know the terms, nature and cost of services rendered by our competition and also their marketing strategies. Apart from all these, the branch manager should try to: Develop personal inclination to take safe risks.

Create a climate of confidence and trust within the branch

Establish personal rapport with the higher authorities and

Take quick and sound decisions

3. Studying the past trend in business growth:

A study of the past trend in the business growth of the branch helps the manager to take as stock of the inherent strength and weakness of the branch, the staff members and its location, etc. This must be done to make the budget realistic. There is no point in setting a budget, which is very ambitious for a branch with limited resources.

4. Preparation of Tentative Budget:

After doing all the above exercise, the branch manager should attempt to protect the incremental growth in business for the next year. It is at this stage that he should seek the reviews of all his staff members in agreement and frank atmosphere. Preferably a meeting of all the staff members should

be called in which he can present all the details. It should then be left to the group to decide how much should be the incremental growth in business for their branch. In such a meeting, the leadership qualities of the manager should be made use of, so as to elicit the view of each and every staff member.

Apart from this the manager should patiently listen to the view so everybody. If all the certain views and suggestions are not acceptable to the group, the members should be convinced of the reason why they are not acceptable. Once sufficient deliberations have been gone through in the meeting, a consensus decision in regard to the incremental growth in the business in each sector like deposits, advances, profit etc. will be taken. There is important advantage in formulating the budget in this way. Because the goals have been set jointly, every member for the staff will be totally committed to the goals and will be striving hard to achieve them. As a result, the budget of the branch will not be treated as the branch manager's budget but will be recognized as a branch budget.

#### 5. Participating in the Budget Meeting of the Region:

The branch manager presents this draft budget to the regional manager in the budget meeting convened by the latter for the entire region. In this meeting, the regional manager presents the macro level scenario of the region and invites suggestions and views of the individual branch managers regarding their contribution to the achievement of the incremental business growth for the regions for the next year. The draft budgets brought by the individual branch managers are discussed and the total business for the

entire regions is arrived at. The figures furnished by the individual branches are not simply accepted by the regional manager. The branch managers will have to substantiate their projected business figures to the satisfaction of the regional manager.

#### 6. The Final Budget Meeting at the Branch:

After the regional manager has finalized the regional budgets in the above meeting, the branch manager has to convene another staff meeting in his own branch to inform the staff members about the details of the final budget from the draft budget, the branch manager should explain the position to all the staff members to their satisfaction. In this way all the staff members are very well aware of the task. In this meeting some notion plans can also be chalked out.

#### 7. Review Meeting at Branch Level and Regional Level:

Once the budget year starts, the real action begins. Success of any planned project depends on large extent on the periodic review of the progress made. The entire yearly budget can be divided into quarterly or half yearly budgets. In the review meetings half of the regional level, the performance of each branch will be reviewed vis-à-vis the targets; For making the regional review meetings more meaningful, it is advisable to attempt such review meetings at the individual branches by conducting staff meetings. This should be preferably done before the regional review meetings so that the branch manager is ready with all the necessary details when comes for the regional meeting, specifically in regard to the reasons for variances, if any from the budgetary goals.

3. Explain the factors the branch manager has to take into account at the time of preparation of the budget.

At the time of preparation of the budget, the branch manager has to take into account the following four factors:

1. Bank's corporate goals
2. RBI's ground rules
3. Government of India's Directives
4. Expectations of the people in the command area

#### 1. Bank's corporate goals

The corporate goal of the bank, as decided by the top management, forms the basis of the performance budget. As such it is necessary that these are clearly spelt out and advised to the branches well in time. In some banks these are given in the booklet, " Policy Guidelines", brought out by the central office every year. This provides the branches the broad guidelines, covering the economic scenario for the country and the bank's expectations of the incremental growth in the business during the coming year.

#### 2. RBI's Ground Rules

There are certain ground rules prescribed by the RBI, which should govern all the activities of the bank. They are summarized below:

a. No bank shall pay interest on current account.

b. No bank shall pay countervailing interest on any current accounts maintained with it by its borrowers.

c. No bank shall discriminate in the matter of rate of interest paid on deposits, between one deposit and another,



accepted on the same date and the same maturity, whether such deposits are accepted at the same office or at the different offices of the bank. d. No bank shall pay brokerage on deposits in any form to any individual, firm, company, association, institution or any other person, except i) Commission paid to agents, employed to collect door to door deposits under special schemes ii) Inexpensive gifts costing not more than the amount prescribed by the RBI in this regard from time to time. iii) Incentive granted to staff members as approved by RBI from time to time. e. No bank shall violate the other instructions issued by RBI from time to time, on payment of interest and related aspects in accepting of deposits and granting advances.

### 3. Government of India Directives

The government of India issues directives from time to time to banks in the matter of providing credit to the priority sector and other specified groups, and implementation for various poverty alleviation programs. These are kept in mind at the time of drawing the credit plan for the ensuring

### year. 4. Expectation of People of the Command Area

Over all above all these, the branch manager at the time of drawing up the actual budget has to take into account the expectation of the people inhabiting the command area in regard to their credit needs and also other types of services, especially now that we are going to adopt the service areas approach in all our activities.

### 6. Explain Fractional-reserve banking.

Answer:

Fractional-reserve banking is the practice whereby a bank holds reserves (to satisfy demands for withdrawals) that are less than the amount of its customers' deposits. Reserves are held at the bank as currency, or as deposits in the bank's accounts at the central bank. Because bank deposits are usually considered money in their own right, fractional-reserve banking permits the money supply to grow beyond the amount of the underlying reserves of base money originally created by the central bank. Fractional-reserve banking is the current form of banking practiced in most countries worldwide. Fractional reserve banking has been said to violate Islamic principles of ownership.

### Working of Fractional Reserve Banking

In most legal systems, a bank deposit is not a bailment. In other words, the funds deposited are no longer the property of the customer. The funds become the property of the bank, and the customer in turn receives an asset called a deposit account (a checking or savings account). That deposit account is a liability on the balance sheet of the bank. Each bank is legally authorized to issue credit up to a specified multiple of its reserves, so reserves available to satisfy payment of deposit liabilities are less than the total amount which the bank is obligated to pay in satisfaction of demand deposits.

Fractional-reserve banking ordinarily functions smoothly. Relatively few depositors demand payment at any given time, and banks maintain a buffer of reserves to cover depositors' cash withdrawals and other demands for funds. However, during a bank run or a generalized financial crisis, demands for withdrawal can exceed the bank's funding buffer, and the bank will be

forced to raise additional reserves to avoid defaulting on its obligations. A bank can raise funds from additional borrowings (e. g., by borrowing in the interbank lending market or from the central bank), by selling assets, or by calling in short-term loans. If creditors are afraid that the bank is running out of reserves or is insolvent, they have an incentive to redeem their deposits as soon as possible before other depositors access the remaining reserves. Thus the fear of a bank run can actually precipitate the crisis.

Many of the practices of contemporary bank regulation and central banking, including centralized clearing of payments, central bank lending to member banks, regulatory auditing, and government-administered deposit insurance, are designed to prevent the occurrence of such bank runs. Economic

Function of Fractional Reserve Banking:

Fractional-reserve banking allows banks to create credit in the form of bank deposits, which represent immediate liquidity to depositors. The banks also provide longer-term loans to borrowers, and act as financial intermediaries for those funds. Less liquid forms of deposit (such as time deposits) or riskier classes of financial assets (such as equities or long-term bonds) may lock up a depositor's wealth for a period of time, making it unavailable for use on demand. This " borrowing short, lending long," or maturity transformation function of fractional-reserve banking is a role that many economists consider to be an important function of the banking system.

Additionally, according to macroeconomic theory, a well-regulated fractional-reserve bank system also benefits the economy by providing regulators with

powerful tools for influencing the money supply and interest rates. Many economists believe that these should be adjusted by the government to promote macroeconomic stability. The process of fractional-reserve banking expands the money supply of the economy but also increases the risk that a bank cannot meet its depositor withdrawals. Modern central banking allows banks to practice fractional-reserve banking with inter-bank business transactions with a reduced risk of bankruptcy. Money Creation Process

There are two types of money in a fractional-reserve banking system operating with a central bank: Central Bank Money: money created or adopted by the central bank regardless of its form – precious metals, commodity certificates, banknotes, coins, electronic money loaned to banks, or anything else the central bank chooses as its form of money Commercial Bank Money: demand deposits in the banking system; sometimes referred to as “chequebook money” When a deposit of central bank money is made at a bank, the central bank money is removed from circulation and added to the commercial banks’ reserves (it is no longer counted as part of M1 money supply). Simultaneously, an equal amount of new commercial bank money is created in the form of bank deposits. When a loan is made by the commercial bank (which keeps only a fraction of the central bank money as reserves), using the central bank money from the commercial bank’s reserves, the m1 money supply expands by the size of the loan. This process is called “deposit multiplication”. Regulatory Requirements:

Government controls and bank regulations related to fractional-reserve banking have generally been used to impose restrictive requirements on

note issue and deposit taking on the one hand, and to provide relief from bankruptcy and creditor claims, and/or protect creditors with government funds, when banks defaulted on the other hand. Such measures have included for examples such as: Minimum required reserve ratios (RRRs)

Minimum capital ratios

Government bond deposit requirements for note issue 100% Marginal

Reserve requirements for note issue and

Sanction on bank defaults and protection from creditors for many months or even years

5. Examine the economic functions of banks.

The Banking Sector has for centuries now formed one of the pillars of economic prosperity. Indeed history provides us with some starting information regarding how banks provided finance for imperialist ventures in newly acquired colonies. Over time banks have formed an important part in providing an avenue for both savings and investments. Land, Labor, capital and entrepreneurs are the basic economic resources available to business. However, to make the use of these resources, a business requires finance to purchase of the land, hire labor, pay for capital goods and pay for individuals with specialized skills. Detail role of functions of banks in economic development is given below: Trade Development

The banks provide capital, technical assistance and other facilities to businessmen according to their need, which leads to development in trade.

Agriculture Development

Banks finance the most important sector of the developing economics i. e. agriculture, short, medium and long-term loans are provided for the purchase of seeds and fertilizer, installation of tube wells, construction of warehouses, purchase of tractor and thresher etc. Industrial Development

The countries, which concentrated on industrial sector made rapid economic development. South Korea, Malaysia, Taiwan, Hong Kong and Indonesia have recently developed their industrial sector with the help of banks. Capital Formation

Banks help in increasing the rate of capital formation in a country. Capital formation means increase in number of production units, technology, plant and machinery. They finance the projects responsible for increasing the rate of capital formation. Development of Foreign Trade

Banks help the traders of two different countries to undertake business. Letter of credit is issued by the importer's bank to the exporters to ensure the payment. The banks also arrange foreign exchange. Transfer of Money

Banks provide the facility of transferring funds from one place to another which leads to the growth of trade. More Production

A good banking system ensures more production in all sectors of the economy. It increases the production capabilities of the economy by strengthening capital structure and division of labor Development of Transport

The banks financed the transport sector. It has reduced unemployment on one hand and increased the transport facility on the other hand. Remote areas are linked to main markets through developed transport system. Safe Custody

The business concerns and individuals can make themselves tension free by depositing their surplus money in banks. The banks also provide them the facility of lockers to keep their precious articles and necessary documents safe. Increase in Saving

Banks persuade the people to save more. Different saving schemes with attractive interest rates are introduced for this purpose. Number of bank branches is opened in urban and rural areas. Construction of Houses

Banks provide credit facilities to their customers for the purchase or construction of houses. Assistance to Government

By providing funds to government for development programs, the banks share the government for economic stability. Increase in Employment

A country's economic prosperity depends on the development of trade, commerce industry, agriculture, transport and communication etc. These sectors are financed by the banks and employment opportunities are increasing. Saving in Metallic Reserve

Cheques and drafts etc works like money. In this way the need of precious metals to make coins reduces and metallic reserve of the country can be utilized on other important matters Credit Creation

Banks are called the factories of credit. They advance much more than what they collect from people in the form of deposits. Through the process of credit creation, banks provide finance to all sectors of the economy thus making them more developed than before. Proper use of Money

People deposit their savings in the banks, so the scattered money becomes a huge amount in the way, which can be used for different projects in a proper way. Financial Advices

Banks also give useful financial advices to promote the business of their customers, besides credit facilities. Export Promotion Cells

In order to boost the exports of the country, the banks have established export promotion cells for the information and guidance to the exporters.

Economic Prosperity

Economic prosperity of a country depends on number of factors including the development of banking. A sound banking system promotes the economic status of the people by providing them short, medium and long-term loans.