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RESEARCH ARTICLE

APPLICATION AND EFFECTIVENESS OF FINANCIAL CONTROL TECHNIQUES IN INDIAN BANKS- AN EMPIRICAL EVIDENCE.

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Abstract

A sound system of financial control contributes to safeguarding the stakeholders' investment and the institutions assets. Further financial control also contribute to the safeguarding of assets, including the prevention and detection of fraud. Half tied financial control is a virus affecting banking sector. It affects liquidity and profitability, in addition posing threat on quality of asset and survival of banks. The intent of the research paper is to analyse the application of financial control techniques and to check their effectiveness with regard to their application in Indian banking sector. The study is pursued on the data collected through questionnaire at the 10 public and private sector banks from 8 managerial level bankers from each bank. The data has been used to analyze by percentage analysis, mann-whitney test and the correlation value. The importance of analyzing these techniques is to check the control systems applied in Indian banking sector. The application and the effectiveness of financial control techniques are distinctively analyzed for public and private sector banks.

Introduction:-

The intent of the research paper is to analyse the application of financial control techniques and to check their effectiveness with regard to their application in Indian banking sector. Since, The financial sector of any economy, with banking sector at its core, plays an integral part in its development, growth and progress. Thomas (1995) opined that the banks are not merely dealers in money but are in fact dealers in development. Economists have expressed a variety of opinions on the effectiveness of banking systems in promoting and facilitating economic development. Today, the bank has shifted from brick model to click model. Similarly, banks in India have played a pivotal role in mobilisation of savings and have helped in stimulating the economic development.

Financial control is fairly widely used both in literature and in speeches, yet no comprehensive definition of the term appears to exist anywhere (Breda, 1979). Breda (1979) defines financial control as (a) a set of related dollar denominated version model. Thus, the Financial Control function includes analyzing financial management instruments as well as the associated systems. But it is not merely financial accounting model or management accounting model. Here, financial accounting model includes numbers like increase in net income, net profits, net worth etc. Second model i.e. management accounting model includes budgets and budgeting process. Breda (1979) argued that financial control system is indeed separate from financial accounting and management accounting systems. It has some more to do over and above financial accounting and management accounting as aptly opined by BCorporation.net. BCorporation.net (2015) defines financial controls as the means by which an organization's resources are directed, monitored, and measured.

Importance of Financial Control:-

A sound system of financial control contributes to safeguarding the stakeholders' investment and the institutions assets. Further financial control also contribute to the safeguarding of assets, including the prevention and detection of fraud. Moreover, the financial control is being explained by ACCA (2010) as the control function of the financial manager becomes relevant for funding which has been raised. Are the various activities of the organization meeting its objectives? Are assets being used efficiently? To answer these questions, the financial manager may compare data on actual performance with forecast performance. Forecast data will have been prepared in the light of past performance (historical data) modified to reflect expected future changes. Future changes may include the effects of economic development, for example an economic recovery leading to a forecast upturn in revenues (Nkuah, J.K., Tanyeh, J.P. and Asante, J., 2013).

Walters and Dunn (2001) stated that, obtaining sufficient knowledge of the internal financial controls, both information technology (IT) controls and application controls are needed to facilitate the determination of the audit strategy and the carrying out of subsequent steps. Control Environment is the attitudes, abilities, awareness and actions of client personnel and particularly management in relation to control. Financial controls activities are the policies and procedures that help ensure management directives are carried out. Financial controls are all the policies and procedures adopted by the directors and management of all entity to assist in achieving their objective of ensuring as far as practicable, the orderly and sufficient conduct of its business, including adherence to internal policies, the safe guarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accountancy records and the timely preparation of reliable financial information (Walters and Dunn, 2001). Thus, it can be said that financial control comprises of financial accounting numbers, budgets and budgeting, internal audits, risk mitigation techniques, human being involved, processes, information system, policies and procedures, decision making techniques etc. Particularly, in case of banking sector, financial control covers all the Bank's activities whose data streams have an important impact on its financial position, such as credit risk, performance indicators, information and management systems, the administrative budget, ALM and market risks.

Literature Review:-

The study of financial control is an emergent concept in all the financial institutions. The importance of the subject is also highlighted from the review of existing literature. With respect to financial control, Mafiana (2013) opined that a study of relationship between internal control effectiveness and financial performance in the Nigerian banking industry can help in avoiding failures. Similarly, Sofiah, Aini, Ruhanita and Noradiva (2013) provided evidence of accounting outsourcing practices in Malaysia and the management control strategies undertaken by these practicing firms to mitigate inherent risks. Ahmed Arif Ahmed Nauman Anees (2012) examined liquidity risk in Pakistani banks and evaluate the effect on banks' profitability. Hsiu , Hsun and Ying (2007) found that rather than leading to improved profitability, Chinese banks' efforts to develop non-traditional banking business actually had a negative impact on the ROA. Jensen and Payne (2003) found that managers of organizations establish control systems to reduce the agency costs inherent in those organizations. Jill M. D'Aquila (1998) highlighted that there were some reasons for concern about fraudulent financial reporting. Uche Chibuike (1998) related the bank's policy changes and bad debt problem. Lowe,E.A. (1994) felt the need of integrating accounting control systems with management control systems. Particularly in case of India Mahanta and Kakati (2011) found presence of weaknesses in process of the existing credit appraisal is a major cause of accounts turning into bad loans. Mallick and Sarkar et. al. (2010) found that NPAs (as a ratio of loans and advances) were significantly sticky and did not seem to have spiraled out of control over the 1990s. Uppal and Kaur (2009) found that in today's scenario, major problem of all the banks was how best to utilize their funds to earn maximum income with the reduction in costs so as to compete and survive in the emerging global competitive environment. As evident, only few studies have been conducted considering different different parameters of financial control e:g NPAs, ROA and audit. Thus study attempts to analyze the financial control systems using variables like CAMEL Model, Budgetary control, NPA Management, Financial statement analysis, Financial reporting, Internal Audit, External Audit and Basel guidelines/ norms etc .

Research Methodology:-

The present study is confined to Indian banking sector only. Out of the various types of controls like Administrative, Financial, Operational and Personnel etc, this study focused on financial control only. The study is based on Primary data. For the purpose of collection of primary data sampling includes 8 managerial level bankers from each public and private sector banks. In total 20 banks(i.e 10 private sector and 10 public sector banks) are selected from the based on market capitalization as on 31 march 2009. The list of banks as per Nifty PSU Bank Index and Nifty Private Bank Index on the basis of market capitalisation 31 march 2009 is as below:

Table No 1.1:- List of Banks.

Sr. No.	Name of the Bank	Sr. No.	Name of the Bank
PUBLIC SECTOR BANKS		**PRIVATE SECTOR BANKS**	
1	State Bank of India	1	ICICI Bank
2	Punjab National Bank	2	HDFC Bank
3	Bank of India	3	Axis Bank
4	Bank of Baroda	4	Kotak Mahindra Bank
5	Canara Bank	5	ING Vasya Bank
6	Union Bank	6	Yes Bank
7	Indian Bank	7	Fedral Bank
8	Allahabad Bank	8	J&K Bank
9	IDBI Bank	9	Indusind Bank
10	Oriental Bank of Commerce	10	Karur Vasya Bank

For the purpose of study, the data was collected and was evaluated in SPSS and the data was found to non-normally distributed.

Objectives are the vital element of the study. Broadly the study aims at determining financial control practices being adopted in various functional areas of Indian banks to improve their performance and specifically objectives of the study were as follows:-

- To study and evaluate the financial control systems in selected banks.
- To evaluate the effectiveness of financial control techniques.

Findings and Conclusions:-

The following findings were the outcome of the research work as depicted in the tables below:

Time frame of applicability of Financial Control techniques:-

Table 1.2 here highlights the responses of the selected sample managers regarding time frame of applicability of financial control techniques.

Table 1.2:- Time frame of applicability of Financial Control techniques.

Financial control techniques	Time frame of applicability of techniques						
	Yearly Applicable	**Semi-Annually Applicable**	**Quarterly Applicable**	**Monthly Applicable**	**Fortnightly Applicable**	**Weekly Applicable**	**Daily**
Target costing	32 (20)	2 (1.25)	76 (47.50)	42 (26.25)	0 (0)	8 (5)	0 (0)
CAMEL Model	60 (37.5)	56 (35)	18 (11.25)	10 (6.25)	16 (10)	0 (0)	0 (0)
Action profit linkage model	84 (52.5)	0 (0)	50 (31.25)	18 (11.25)	0 (0)	0 (0)	8 (5)
Budgetary control	72 (45)	0 (0)	60 (37.50)	28 (17.50)	0 (0)	0 (0)	0 (0)
Asset liability management	12 (7.5)	16 (10)	66 (41.25)	26 (16.25)	8 (5)	32 (20)	0 (0)
NPA Management	14 (8.75)	0 (0)	66 (41.25)	14 (8.75)	0 (0)	66 (41.25)	0 (0)
Business per employee	48 (30)	8 (5)	48 (30)	32 (20)	0 (0)	16 (10)	8 (5)
Financial statement analysis	10 (6.25)	0 (0)	90 (56.25)	20 (12.5)	0 (0)	40 (25)	0 (0)
Liquidity management by call money market /CP's/ CD's/ Treasury Bills	2 (1.25)	8 (5)	2 (1.25)	16 (10)	52 (32.5)	44 (27.5)	36(22.5)
Anti Money laundering	0 (0)	0 (0)	0 (0)	30(18.75)	8 (5)	114(71.25)	8 (5)
Financial reporting	0 (0)	0 (0)	8 (5)	78(48.75)	8 (5)	66(41.25)	0 (0)
Investment management	8 (5)	8(5)	24(15)	34(21.25)	0 (0)	86(53.75)	0 (0)
Tax Planning	0 (0)	0 (0)	72 (45)	30(18.75)	0 (0)	58(36.25)	0 (0)
Priority sector lending	32 (20)	0 (0)	64(40)	40(25)	8 (5)	14(8.75)	2(1.25)
Internal Audit	134(83.75)	0 (0)	10(6.25)	8 (5)	0 (0)	8 (5)	0 (0)
External Audit	138(86.25)	0 (0)	0 (0)	16(10)	0 (0)	6(3.75)	0 (0)
Basel guidelines/ norms	4(2.5)	0 (0)	32(20)	0 (0)	24(15)	82(51.25)	18(11.25)

Note: The figures provided in parenthesis denote percentages N=160

The table shows financial control techniques; External audit, Internal audit, CAMEL model and Action profit linkage model are examined by majority as yearly and semi annually applicable. Financial control techniques those identified by majority of respondents viz-a-viz target costing, financial statement analysis, priority sector lending, tax planning, asset liability management, budgetary control, financial reporting, NPA management and business per employee applicable on quarterly and monthly basis. Maximum responses of bankers for liquidity management, anti money laundering, Basel guidelines/norms and investment management were recorded on fortnightly, weekly and daily basis. Hence it can be concluded that all the bankers were aware about the application of financial control techniques on the basis of time frame. Further for in-depth knowledge for the application of the financial control indicators in selected public and private sector banks is analyzed. Table 1.3 depicts the test statistics for time frame of application of financial control techniques.

Table 1.3:- Time frame of applicability of Financial Control techniques in Public Sector Banks and Private Sector Banks

Test Statistics[a]				
	Mann-Whitney U	Wilcoxon W	Z	Asymp. Sig. (2-tailed)
Target costing	538.000	1358.000	-2.708	.007*
CAMEL Model	482.000	1302.000	-3.222	.001*
Action profit linkage model	392.000	1212.000	-4.327	.000*
Budgetary control	668.000	1488.000	-1.377	.169
Asset liability management	674.000	1494.000	-1.267	.205
NPA Management	420.000	1240.000	-3.947	.000*
Business per employee	152.000	972.000	-6.442	.000*
Financial statement analysis	670.000	1490.000	-1.395	.163
Liquidity management by call money market /CP's/ CD's/ Treasury Bills	716.000	1536.000	-.837	.403
Anti Money laundering	660.000	1480.000	-1.695	.090
Financial reporting	780.000	1600.000	-.213	.831
Investment management	526.000	1346.000	-2.891	.004*
Tax Planning	694.000	1514.000	-1.103	.270
Priority sector lending	678.000	1498.000	-1.229	.219
Internal Audit	754.000	1574.000	-.689	.491
External Audit	712.000	1532.000	-1.416	.157
Basel guidelines/ norms	522.000	1342.000	-2.897	.004*
a. Grouping Variable: Sector				

***represents the significant result** **N=160**

Data shows the result of the Mann-Whitney and Wilcoxon test. As per table there is statistically significant difference (at 99% confidence level) among private and public sector banks in the frequency of the financial control techniques like Camel Model, Action linkage profit model, NPA management and business per employee. Negative Z values suggest that private sector banks adopt these frequently with regards to time frame, in other words private sector banks review their control measures from time to time, so as to perform exceptionally good. It can be concluded that these financial control techniques are differently adopted in selected Indian banks.

So, a review about the time frame of application of financial control techniques we need to review the effectiveness of financial control techniques, so that the bankers are in a appropriate situation to review /revise the application of these techniques in accordance to time. Public sector banks should improve the application of financial control measures periodically.

Effectiveness of Financial Control techniques:-

All the twenty sampled banks, apply the financial control techniques, other than application of these techniques, one of the objective behind it is; the effectiveness (in form of performance improvement) by application of these techniques. Table no.1.4 depicts Effectiveness of Financial Control techniques in Indian banks.

Table 1.4:- Effectiveness of Financial Control techniques in selected Indian Banks.

Financial Control techniques	Level of effectiveness				
	Exceptional	**Highly Effective**	**Effective**	**Inconsistent**	**Unsatisfactory**
Target costing	4 (2.5)	68 (42.5)	84 (52.5)	4(2.5)	0 (0)
CAMEL Model	26 (16.25)	54 (33.75)	80 (50)	0 (0)	0 (0)
Action profit linkage model	6 (3.75)	60 (37.5)	78 (48.75)	16 (10)	0 (0)
Budgetary control	2 (1.25)	72 (45)	86 (53.75)	0 (0)	0 (0)
Asset liability management	4 (2.5)	82 (51.25)	72 (45)	2 (1.25)	0 (0)
NPA Management	4 (2.5)	116 (72.50)	32(20)	8 (5)	0 (0)
Business per employee	12 (7.5)	64 (40)	78 (48.75)	6 (3.75)	0 (0)
Financial statement analysis	16 (10)	64 (40)	74 (43.25)	6 (3.75)	0 (0)
Liquidity management by call money market /CP's/ CD's/ Treasury Bills	8(5)	66 (41.25)	80 (50)	6 (3.75)	0 (0)
Anti Money laundering	4 (2.5)	88 (55)	64 (40)	4 (2.5)	0 (0)
Financial reporting	6 (3.75)	94 (58.75)	56 (35)	4 (2.5)	0 (0)
Investment management	14 (8.75)	92 (57.5)	50 (31.25)	4 (2.5)	0 (0)
Tax Planning	16 (10)	70 (43.75)	74 (46.25)	0 (0)	0 (0)
Priority sector lending	0 (0)	102 (63.75)	56 (35)	2 (1.25)	0 (0)
Internal Audit	32 (20)	78 (48.75)	48 (30)	2 (1.25)	0 (0)
External Audit	6 (3.75)	72 (45)	82 (51.25)	0 (0)	0 (0)
Basel guidelines/ norms	6 (3.75)	92(57.5)	62 (38.75)	0 (0)	0 (0)

Note: The figures provided in parenthesis denote no. of percentages **N=160**

The maximum bankers recorded following financial control techniques as effective at their banks 1)Priority sector lending 2) Budgetary control 3) Asset liability management4) External audit 5) Basel guidelines/norms 6) Target costing 7) Anti money laundering 8) Financial reporting 9) NPA Management 10) Liquidity management 11) Tax planning 12) Business per employee 13) Investment management14) Action profit linkage model 15) CAMEL model 16) Financial statement analysis 17) Internal audit. Few financial control techniques such as Internal audit and CAMEL model are considered by few (20-15%) of the bankers as exceptionally effective in application.

Therefore it can be concluded that all the financial control techniques were effective in their application. A comprehensive view for selected public and private sector banks with regard to effectiveness of financial control techniques is analyzed. Data in table 1.5 depicts the test statistics for effectiveness for public and private sector banks.

Table 1.5:- Mann Whitney analysis of public and private banks for financial control (effectiveness).

Test Statistics[a]				
	Mann-Whitney U	Wilcoxon W	Z	Asymp. Sig. (2-tailed)
Target costing	686.000	1506.000	-1.243	.214
CAMEL Model	636.000	1456.000	-1.730	.084
Action profit linkage model	600.500	1420.500	-2.107	.035*
Budgetary control	731.500	1551.500	-.759	.448
Asset liability management	713.000	1533.000	-.951	.341
NPA Management	753.000	1573.000	-.579	.563
Business per employee	754.000	1574.000	-.489	.625
Financial statement analysis	795.500	1615.500	-.047	.962
Liquidity management by call money market /CP's/ CD's/ Treasury Bills	646.500	1466.500	-1.647	.100
Anti Money laundering	680.000	1500.000	-1.316	.188
Financial reporting	712.500	1532.500	-.969	.332
Investment management	680.500	1500.500	-1.303	.193
Tax Planning	796.500	1616.500	-.037	.970
Priority sector lending	748.000	1568.000	-.599	.549
Internal Audit	624.500	1444.500	-1.832	.067
External Audit	694.000	1514.000	-1.159	.246
Basel guidelines/ norms	768.500	1588.500	-.350	.727
a. Grouping Variable: Sector				

***represents the significant result** **N=160**

Table 1.5 shows the result of effectiveness of financial control techniques in both public and private sector banks. As evident from table except action profit linkage model, there is no significant difference in effectiveness of financial control techniques as adopted in public sector banks and private sector banks. Majority of the respondents from private sector banks treated it highly effective and exceptional as compared to public sector banks. It can be concluded that these financial control techniques have different level of effectiveness in selected Indian banks.

Thus tables 1.2 and 1.4 identify the need to check the application of each financial control techniques with regard to the effectiveness of each financial control techniques simultaneously by considering that there is efficient utilization of resources; whether, time, money, human resources involved in application of techniques and intelligent focus on the revenue generating techniques while considering their effectiveness.

Table 1.3 and 1.5 further distinguishes the application and effectiveness of financial control techniques on the basis of selected public and private sector banks. The objectives to enhance the sluggish performance of public sector banks with their private counterparts. Repetitive application of the financial control techniques can improve the efficiency and performance of public sector banks.

Although it is found that financial control techniques are applicable and found to be effective. To correlate the application of financial control techniques and their effectiveness co-relation between the both was calculated and the result is as follows

Formula: $$r = \frac{N\sum dxdy - \sum dx \sum dy}{\sqrt{(\sum dx^2 - (\sum dx)^2)} * \sqrt{(\sum dy^2 - (\sum dy)^2)}}$$

Where: dx= applicability of financial control techniques
dy= effectiveness of financial control techniques

$$\boxed{r = -0.02738}$$

Hence it is very evident from the co-relation value, that application of financial control techniques and their effectiveness are negatively correlated. That means neither the repetitive application of financial control technique increases the performance or deteriorates the performance. There is a repetitive need to alter the time frame of application of financial control techniques so as to increase the performance and result in positive value of correlation**.**

Suggestions, scope for further research and conclusion:-

1. Alteration in the time of application of financial control techniques, as per their effectiveness.
2. Fortnightly review should be done at bank level to avoid occurrence of wastage of human efforts towards application of financial control techniques.
3. Proper selection of borrowers & follow ups required to get timely payment.
4. Special cell should be designated to review the procedural formats of each techniques, so that it is implemented in the desired direction.

Scope for Further Research:-

The present research has examined only few parameters to test the application of control theories, more parameters can be explored by rigorous study on parameters only.

Conclusion:-

Financial control systems being a principal part of the control systems, need to be focused and reviewed from time to time. So as to achieve the standards at every branch level. Thus, it has been observed that the application of financial control techniques are noticed and are found to be effective. Hence, commitment of the management with the effective implement of financial control techniques are suggested and revision of time frame of application of financial control needs to be done so as to enhance their effectiveness and reduce the repeated efforts towards the application of financial control techniques.

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