Designing Optimal Management Structures and Control Systems for Commercial Banks: A Market Segmentation Approach*

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Following the Miller-Rice model, it is possible to visualize the operations of commercial banks in the following "input-conversion-output" terms:

<table>
<thead>
<tr>
<th>Input</th>
<th>Conversion</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds</td>
<td>Processing of data</td>
<td>Deposits</td>
</tr>
<tr>
<td>Assets</td>
<td>Organization of work</td>
<td>Advances</td>
</tr>
<tr>
<td>Resources</td>
<td>Banking systems, procedures, and methods</td>
<td>Banking services</td>
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In a marketing sense, it is possible to hold that deposits, advances, and banking services represent "products" that a commercial bank offers to its customers. However, as the size of commercial banking operations grows at either total organization or zonal level, a "product" (or output) oriented segmentation of activities may lead to ineffectiveness because of the following limitations:

(a) The customers might be far too heterogeneous in terms of their "buying".

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behaviour to be satisfied by the standardized "products" or services provided. (b) The requirements of various customers might be so diverse, the skills required for providing such service might be so distinctive, and the resources necessary for serving dissimilar customer groups might be so different that by adopting an uniform product-output segmentation, commercial banks might not be able to achieve their objectives in terms of volume, profitability of business, etc. Also such a work organization might hinder banks from providing the required degree of specialized customer service or maintaining market thrust and direction for the required growth and development.

As a commercial bank grows, its products have to be differentiated in terms of the markets it wants to serve. For example, in relation to advances, it is possible to think of customer groups which can be easily differentiated as given below in terms of their needs and "buying" behaviour.

(a) A salaried person requiring a temporary overdraft for consumption.
(b) A large company requiring cash credit, overdraft or term loan facilities for working capital/medium term fund needs.
(c) An export company requiring funds for financing its exports to earn foreign exchange for the country.
(d) A small industrial unit requiring funds towards its working capital.
(e) An entrepreneur running a small business requiring funds for operating his business.
(f) A farmer requiring advances for crop loan.

It can be said that in terms of their "business" with commercial banks these customer groups have substantial differences:

(a) The nature of their needs, in terms of both the amount and the rate at which advances are to be provided, are quite different.
(b) They require credit at different times.
(c) Their ability to repay loans is dependent on different considerations: savings habit, demand for products in the internal market demand for products in the external market, crop conditions, etc.
(d) The kind of data required for analyzing such advances are entirely different.
(e) The skills required for analyzing the request for advances based on different data are also quite different.

It is hypothesized that as the size of operation of commercial banks grows—at branch or zonal or organizational levels—in order to serve the distinctive demands of different customer groups, there is need for changing from a product-output structure to a market-business structure for improving the effectiveness and efficiency of operations. It is also hypothesized that market segmentation approach in such situations will lead to better planning of resources and operations, meaningful control and development of specialized skills, and consequent provision of better quality customer services and clearer focus towards market penetration, direction, and thrust.

A Historical Perspective

Traditionally, commercial banks in India have been organized to reflect their basic "products", i.e. deposits, advances, and banking services. This organizational assumption was, therefore, naturally reflected in the development of structure, systems and procedures, information systems, personnel policies, and practices. By the mid-sixties, commercial banks had been encouraged to channel a part of their credit towards small industries and small businesses to support the policy decisions made at the national and state levels encouraging small scale enterprises.
With the subsequent introduction of social control over banking, banks were asked to assume the role of providing credit for agricultural and related operations on the one hand and, on the other, mopping up savings which were till then usually channelled into non-banking sectors. Export activities also assumed considerable importance in terms of national economic policy and banks were asked to provide credit for the national export effort. With the nationalization of 14 large commercial banks in 1969, the priority sectors for channelling credit, consistent with the priorities in economic development, received formal recognition as distinct components of a total scheme for revamping the operations of commercial banks. The thrust and direction towards priority sectors did not, however, manifest in terms of structural and systemic changes. In most cases, development cells were set up in relation to priority sector activities and, depending on the potential, development managers and supporting staff were appointed to assist the operating managers to provide the necessary help and support in attaining the desired level of performance in the priority sectors. Only in 1972 did a major bank—State Bank of India—reflect in its structure and systems the emerging requirements of different market segments. The other banks continued essentially the "development" oriented model emphasizing the specialized requirements of banking services for the priority sectors. One of the major factors which triggered the structural and systemic changes in State Bank of India1 was the explosive growth caused by branch expansion and increase in the scale of activities and personnel. The newly started banks in rural areas and industrial estates were catering to specific customer groups (or in our terminology, "market segments"), which were substantially different from the traditional customers of Indian commercial banks. Even in the case of metropol-

1 For a fuller discussion of the reorganization in 1969-70 of State Bank of India, see Dayal (1976).

The marketing concept itself has had a great deal to do with the recognition of market diversity by business firms. The road to market disaggregation is opened by shifting the orientation of management from problems of production toward understanding and catering to the needs of customers. Heterogeneity of customers is viewed as an opportunity by the market-oriented firms, whereas it tends to be considered a nuisance by those concerned primarily with production efficiency.

The statement becomes much clearer if we replace "production" by "generation of standard services" like advances, deposits and banking facilities by way of remittances, collections, etc. in the context of commercial banking. Wendell Smith (p. 5; emphasis added) relates the segmentation concept of economists to the concept as understood by marketing specialists:

Segmentation is based upon developments on the demand side of the market and represents a rational and more precise adjustment of product and marketing effort to consumer or user requirements. In the language of the economist, segmentation is disaggregative in its effects and tends to bring out recognition of several demand schedules where only one was recognized before.

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In other words, if the diversity of "markets" is ignored, it is possible that market opportunities represented by unfulfilled customer needs might be ignored and lost. Segmentation, therefore, is basically an attempt towards a more precise definition of the nature of markets served and a better understanding of the nature of customer needs. In the process, the management of the concerned organization develops specialized knowledge and skills for meeting such needs, and formulates strategies for growth and development. Segmentation can be meshed with the design of planning and information systems for developing targets of desired performance in each market segment consistent with the potential and for providing information comparing actual performance with targets. In the process, segmentation will lead to more efficient allocation of resources and better management planning and control for taking remedial action where actual performances are not in line with the desired level of performance. Such a market segmentation-oriented planning and information system will no doubt lead to a better analysis and appraisal of performance and add considerably to management ability to respond decisively and quickly to changing conditions.

Before we proceed, it might be useful to distinguish segments as components of a total market. We might say that a commercial bank fulfills the needs of those customers who wish to deposit their funds for withdrawal at times convenient to them in return for a payment of acceptable rate of interest on the funds deposited, need financial accommodation for meeting their requirements of working capital funds on payment of interest, and require different kinds of banking services like remittances, collections, clearing, etc. on payment of commission, discount or fees. This understanding fulfills the traditional definition of a market that it must have "identified" customers with purchasing power to buy products or services which satisfy their specific needs. Within such a market, we define segments as consisting of groups of customers who display a "homogeneous" pattern of purchasing habits and product usage. Corey and Star hypothesize the approach of market segmentation conceptually as one of integrating markets, programmes, and organizational resources and services in an optimal relationship to subserve the organizational objectives of growth, development, and profitability. A schematic framework for such an approach is provided later.

A Conceptual Framework for Segmentation

Once it is assumed that organizations are primarily designed to serve customers or the markets they represent, identification of market segments becomes a critical requirement for designing organizational structure, systems, and personnel policies focused towards greater growth, development, and profitability. There are many approaches to segmentation and in many of them infinite schematic variations are possible. However, before any organization evolves its own parameters for segmentation, it is necessary to define clearly a few key variables. These variables relate to identification of the market which an organization serves, programmes designed for serving the market identified, and nature of resources. Corey and Star define (pp. 2-3) these variables as follows:

A program is a total strategic plan for serving a particular market segment. It provides for product design, pricing,... promotion, and field selling; for product supply and customer service. In the longer run, it also includes the development of new products and services which the business is to supply to the market.

Business resources are the physical facilities, manpower, technical skills, and capital utilized in carrying out programs. What might be termed the basic resources would include the physical facilities, personnel... and customer service—It will be noted that some of these resources are internal while others are external to the business. Although this distinction is meaningful for purposes of organizational design, it should be recognized that many
resources external to the corporate entity are essential parts of the system for planning and implementing market strategy.

In addition, the business will include information services for gathering and analysing of data used for planning, control, and appraisal purposes: budgets and measures, marketing research and economic research data....

Finally, there is a range of organizational resources that provide corporate support and development services: directed not at specific programs and resources but at the development of the corporation as a whole and at the conduct of its relations with environmental groups. One might list these services among others: corporate financial; legal; public relations; stockholder relations; personnel; organization planning; long-range planning. These units deal with outside interests, assist top management in formulating plans and policies, develop financial resources, and plan structural changes in the organization. These types of activities are often located at corporate headquarters and sometimes at operating levels, as well as extensions of counterpart headquarter units.... Within the business, there are, in addition to programs and resources, certain coordination functions ----- They coordinate programs and basic resource activities and are instrumental in allocating resources to programs and in matching the level and timing of resource efforts to program needs. A business organized by both resources and programs which are integrated by means of coordination functions is said to have a matrix organization.

In relation to commercial banking business, it is possible to design a schematic diagram (Appendix 1) based on the above framework. It needs to be stated at the outset that commercial banks, by their very nature of operations, have traditionally segmented their markets on geographical basis. However, so long as there is a diversity of markets in each geographic region, a cross-cut differentiation in terms of buyer behaviour and customer needs would be imperative if the requirements of optimizing effectiveness and efficiency of operations are to be met.

Experience in a different business might help us in gaining some insight into the context in which the need for segmentation arises and the basic guidelines to be adopted in segmentation. In December 1967, the organic chemical division of Monsanto Chemicals, Inc., a very large chemical company in the United States, was organized into six businesses: Food and Fine Chemicals, Rubber Chemicals, Petroleum Additives, Paper Chemicals, Functional Fluids, and Plasticizers and General Chemicals. The organizational assumption was that Organic Chemicals was a distinct and single business. Post-1967 developments included a very substantial expansion in the activities of the Organic Chemicals Division. Corey and Star (p. 15) record the impact of this expansion on the structure of the Organic Chemicals Division by way of excerpts from an internal memorandum of the company.

With greater size it has been increasingly burdensome to maintain the past high standards of customer service and quick response to the many different business interests....

As a result of its study, the Division has concluded that it is no longer just an organic chemical business; instead it is a number of separate businesses who happen to employ organic chemicals, for the most part, to meet the requirements of distinctly different markets. Furthermore, by orienting itself to market requirements, a much wider vista for future growth opens up.

While it is possible to profit from experiences like the one cited above, two broad sets of questions need to be asked before we proceed to consider segmentation as a managerial approach to greater effectiveness and efficiency. The first set of questions is very admirably posed by Peter Drucker (1974). In elaborating on business purpose and business mission, he points out the necessity of asking the following questions:

1. Who is the customer and who should he be?
2. Where is the customer?
3. What does the customer buy?
4. What is value to the customer?

While these questions might seem relatively simple ("value" in question 4 would require to be equated to "service" for organizations like banks), they require a great deal of introspection, formal analysis, and understanding before
they can be answered.

The second set of questions, which can be formulated to supplement the basic questions asked by Drucker, relates to effectiveness in relation to size and cost. 

(a) Is the present size of operations so large that we are missing opportunities?
(b) Are the different customer groups in our present operations large enough to permit economies of scale if they are differentiated?
(c) Are there problems of interface or interrelatedness between customer groups which will be accentuated if we define customer groups as separate market segments?

Criteria for Segmentation

In answering the above sets of questions, if it can be decided that the present operations consist of diverse market segments of relatively large size, it would be both necessary and appropriate to introduce market segmentation as a managerial approach to ensure effectiveness and efficiency of operations. What criteria should we use in deciding upon market segments? Engel et al., (p. 7) postulated them in the following words:

CRITERIA FOR MARKET SEGMENTS:

For usable segments to be developed (1) the segment should be of sufficient size and market potential to warrant the expenditure of marketing funds, (2) it must be possible to reach the segment through available media*, and (3) the segment should show clear variation in market behaviour in comparison with other segments.

The first criterion is important in the economic context, the second one in terms of tactics, and the last one in terms of strategy. Expanding on the first criterion, we should segment only those markets where the segmented unit would be a cohesive and viable organizational unit. Studies conducted by Ishwar Dayal and this author indicated that, in the case of commercial bank branches, segmentation of units with less than TOO employees—particularly if the branch served several segments—is not justifiable on cost-benefit grounds.

Each commercial bank will have to undertake specific studies not only in the context of size but also in terms of future market potential in deciding upon segmentation. Where opportunities for considerable growth and expansion in particular market segments exist, segmentation might be necessary and desirable even if the present size might not be economically viable to start with in terms of costs and benefits. Such segmentation would necessarily have to be made before the forecasted growth materializes; otherwise, the unit will not have adequate time lag to gear itself and develop specialized skills to take advantage of the opportunities when they come about.

While considering the second criterion, it should be clear that unless it is possible to reach the market segment through the available media or promotion and market development programmes, the underlying rationale of market segmentation which focuses on growth and development by exploitation of opportunities would not be met. As will be elaborated later, ability to “reach” the customer is not only a function of the media or promotion or development programmes but also of special staff positions at executive management and corporate management levels, providing the required institutional support for innovative policymaking, tough-minded review, and follow-up action in respect of each segment.

However, it is the third criterion which is most critical in deciding on market segments. If we can come to a reasonably firm conclusion that the market segments identified are distinctive in terms of their needs, timings, customer behaviour, nature and quantum of demands, skills necessary to service such demands, etc. we can be sure that market segmentation would serve the unit or the organization well.

* Or, in our case, specialized promotion or market development programmes.
in terms of efficiency of operations, economic viability, and future growth and development.

**Market Segmentation in Indian Commercial Banking Operations**

Following the last criterion, some of the most appropriate market segments in respect of operations of most large commercial banks in India are discussed below.

(a) **Commercial and Institutional:** This segment will essentially be composed of medium and large sized industries and institutional customers such as municipal, governmental and semi-autonomous bodies, societies, trusts, clubs, etc. Commercial and institutional banking operations can be deemed to be reasonably similar in terms of the following attributes:

(i) Impersonality of ownership;
(ii) Nature of banking operations (though it is slanted in favour of credit in the commercial sub-segment and deposits in the case of institutional sub-segment);
(iii) Manner and mode of operation of accounts;
(iv) Volume of transactions; and
(v) Skills required for analysing, processing, and meeting the demand for credit.

(b) **Personal Banking:** This segment is relatively easy to identify in the sense that it represents individuals who wish to have deposit facilities with banks from which they can periodically withdraw money. They also make use of banking facilities for meeting personal needs of making payments, remitting money, transferring funds from one place to another, etc. Some of the distinctive attributes of this segment are:

(i) Personal or individual nature of accounts; (ii) Size and nature of operations of accounts; (iii) Kind of services required; and

(iv) Promotional requirements.

(c) **Agricultural Banking:** In this segment, the customers are essentially concerned either about obtaining funds for carrying out agricultural operations or about depositing funds arising out of such operations. The relative attributes of this sector are:

(i) Operations arise out of agricultural or related operations;
(ii) Nature, timing, and the size of operations; and
(iii) Skills required for analysing, processing, and meeting the demand for credit.

(d) **Small Industries and Small Businesses:** The customers in this market segment are essentially individuals or very small firms doing business on individualized basis or entrepreneurs who earn their livelihood from personal occupations: taxi drivers, shopkeepers, etc. The attributes in relation to this particular segment are:

(i) Ownership pattern of business operations;
(ii) Size of demands for funds;
(iii) Nature of customer operations; and
(iv) Skills required for analysing, processing, and meeting the demand for credit.

(e) **Export and International Banking:** The customers in this group are either houses who organize export activities on behalf of companies in the group to which they belong or outside companies or those companies which mount substantial export efforts or are concerned with supplying services such as shipping which are critical in terms of export. The relative attributes of this market segment are:

(i) Speed with which demands for funds have to be processed.
(ii) Deep interlinkage of business operations with regulatory provisions relating to exports, etc.;
Nature, size, and timing of funds required;

Skills required for analysing, processing, and meeting the demand for credit; and

Interrelation with operations in the home market in respect of goods and services produced and sold within the country.

**Banking Services:** The customers in this segment—individuals, companies and institutions—are those who wish to avail of the specialized banking services relating to collections, remittances, transmission, foreign exchange facilities, etc. The distinctive attributes of this segment are:

- Sporadic nature of demands;
- Specialized skills required for meeting requirements of customer services; and
- Substantive requirement of knowledge of procedures and systems as distinct from skills of analysis.

It is not contended that these market segments are immutable for all times. The experience in introducing segmentation in two large Indian commercial banks indicates that the problem of categorization of accounts, arising out of their location in overlapping segments, was not serious and could be dealt with administratively. It is very essential that market segments should on the one hand reflect the customers' diverse needs, and on the other hand match the organizational resources, skills, and capabilities. For this reason, segmentation must be a continuous process ensuring that changes are made in the constitution of segments as and when market composition, nature of banking services demanded, and external environment which influences customer behaviour undergo changes.

It will be necessary to ascertain whether the required skills and capabilities (which are distinct for each of the market segments) for organizing, planning, developing, operating, and controlling market segment operations exist in the bank. Obviously, it will be unwise to constitute market segments where the relative skills, personnel, etc. are either scarce or available in such limited scale as to create problems of inadequate service if market segmentation leads to greater customer demand. However, some organization designers contend that, unless market segments are created, the generation of specialized skills, and therefore the availability of required personnel, can never come about. While admitting the substantial validity of this argument, nonetheless decision has to be made at a particular point of time whether specialized skills and resources are available in reasonably adequate terms to start the specialized operations. The consideration might, in some cases, lead to abandonment of segmentation in a few areas.

If the concept of market segmentation is accepted, the next question would be whether it can be introduced uniformly in all units beginning from very small branches to the central office. In answering this question, the criteria of size and future potential will have to be applied with imagination. It would be obviously inappropriate to constitute market segments in very small branches. Most such small branches would be located in rural areas where only two segments would exist, namely, agricultural banking and personal banking. Nonsegmentation is, therefore, unlikely to give rise to substantive problems in terms of effectiveness and efficiency. In fact, it might be contended that, given the economies of scale, segmentation would not be desirable in a very small branch.

Contrasted with the above situation, segmentation would be clearly desirable and necessary in very large branches. As will be seen later, the existence of segments at branch level would require that regional offices and the central office also reflect the segments I approach in their work design and organizational structure.

In the remaining category of medium branches
dealing with several market segments, it will be desirable to create segments only in respect of those markets which are substantially large. A corollary to this would be to group segments as generalized banking services.

**Federal and Simulated Decentralization**

We have to consider next whether the nature of decentralization brought about should be federal or simulated in nature. To quote Peter Drucker (p. 572):

In "federal decentralization" a company is organized in a number of autonomous businesses. Each unit has responsibility for its own performance, its own results, and its own contribution to the total company. Each unit has its own management which, in effect, runs its own "autonomous business."

Without expending too much effort it should be reasonably clear that given the requirement of commonly pooled fund for optimizing credit allocation and providing banking services, etc. federal decentralization in its truest sense would be neither effective nor viable in the commercial banking situation. If the market segments cannot be organized as federal, autonomous, and independent units, what organizational alternative is available for developing the required structure? Since segments are not truly separate "businesses" (but distinctive segments of the same banking "business"), we can resort to simulated decentralization. Peter Drucker (p. 585) once again provides us with a definition.

Simulated decentralization forms structural units which are not businesses but which are still set up as if they were businesses, with maximum possible autonomy, with their own management and with at least a "simulation" of profit and loss responsibility. They buy from and sell to each other using "transfer prices" determined internally rather than by an outside market.

*The commonly used term is "decentralization" ("divisionalization" in Japan). But this is confusing as there are other forms of "decentralization." It is also misleading. The best name for this design principle would be "federal principle."

The transfer price situation can be illustrated with reference to rates of notional interests for contributing to or borrowing from centrally pooled funds in commercial banking operations. Drucker (p. 587) explains simulated decentralization in relation to commercial banks.

The most interesting attempts to apply simulated decentralization to very large businesses which cannot apply federal decentralization were the reorganizations of major New York commercial banks in the 1960s.

Both the First National City Bank and the Chase Manhattan Bank, respectively New York's first and second banks in deposits, have reorganized themselves into simulated decentralized structures. City Bank split itself into five autonomous units, each headed by a "president": retail (i.e. the individual depositor and borrower), commercial (i.e. small and medium-sized businesses), corporate (i.e. large businesses), international, and fiduciary services such as investment management. Each unit has its own objectives, its own plans, and its own profit and loss statements. The Chase organization, though developed independently, is roughly similar.

**A Managerial Framework for Introducing Market Segmentation in Commercial Banks**

While the above analysis should validate the introduction of market segmentation in large commercial banks, it will still be necessary to formulate a managerial (and operational) framework for making segmentation work. We define management in terms of the following basic activities:

- Planning
- Organizing
- Staffing
- Directing
- Measuring and Controlling.

Any approach to segmentation must ensure that all the above "bases are touched" and that the general framework is not only cohesive in organizational terms but also internally consistent. The following paragraphs spell out the requirements of purposive segmentation in respect of group managerial activities listed earlier.

1. Organizing and Directing: The work organization or the structure must necessarily
be based on market segmentation at the branch level. In the case of large branches and medium branches, it would be necessary to divide the work of branches into segments headed by managers with adequate resources in terms of skills, people, and facilities available to them. The branch manager, of course, would still be the "general manager" of the segmented branch. In the case of very small sized branches and those segments in the medium sized branches which are not segmented, it will be necessary to resort to simulated decentralization by ensuring that the procedures and systems adopted lead to separate recording of data in respect of each market segment. Actual performance will have to be reported in relation to desired levels of performance for each simulated segment. These branches will be required to scrupulously follow the guidelines developed by staff specialists at regional centers and segmental policymakers at the central office. Regional offices will have to be divided in terms of two distinct streams. One stream will be charged with planning and controlling line operations, i.e. providing the direction and guidance for management of branches in the region. The other management stream in the regional office would essentially be functional, with development managers providing staff work in respect of specific market segments with no operational responsibility and liaising with their operational counterparts. This stream will also have the necessary supporting staff. The chief executive of the region, of course, would be the general manager for regional operations. The regional operations would be broadly reflected in the central office with this difference that the thrust there would in planning and policymaking areas, and providing overall control as distinct from executive and operational management at the regional level.

A typical organizational structure for branches is outlined in Appendix 2. Similarly, a typical organization structure for a regional office is given in Appendix 3. A typical organization of the central office is shown in Appendix 4. Since market segments will differentiate a bank's activities, simultaneous "integration"—following the Lawrence-Lorsch model—would be provided as follows:

(a) to provide structural positions which have overlapping locational authorities and responsibilities cutting across segments, e.g. Chairman, Managing Director at the central office. Chief General Managers, General Managers (Operations/Planning and Staff) and Regional Managers in the regions, and Branch Manager at branches to ensure the required organizational focus;

(b) to establish committees to formulate plans, review performance reports, develop policies and tactics, etc. enabling marketing segment executives to work together; and

(c) to design, implement, and administer a budgeting and reporting system which forces segments to plan their operations consistent with the requirements of the organization as a whole and the other segments.

Planning, Measuring, and Controlling

One of the major gains of segmentation would be to develop plans which will focus on the market potential of each segment. For this purpose, systems and procedures will have to be developed which will require recording, collection, collation, analysis, reporting, and transmission of data on segmented basis. Corey and Star (p. 40) suggest the following framework for planning when a market segmentation approach is adopted:

...annual planning is the process by which strategy is set and fixed resources are allocated to programs in the short run. The planning process may be guided initially by a set of overall business objectives based on broad forecasts of the economic and business environment. At the program level, managers work within these guidelines to forecast by product and by market—

Annual planning is a "first approximation" in resource allocation. As the business moves into the period for
which managers have planned, there is constant interaction between programs and resources in program implementation. Programs are continually adjusted to respond to market changes and to reflect changes in resource output.

As pointed out earlier, to ensure that the total organizational objectives and the plans of market segments are broadly in agreement, it would be necessary to adopt iterative mode of planning. This can be accomplished by developing corporate policy guidelines and regional guidelines by way of successive approximations in the planning process. A schematic diagram showing the process of development of corporate policy guidelines to serve as a backdrop to segmented planning is given in Appendix 5.

The experience of one major bank is summarized here (Bhattacharyya, p.155).

In the Indian situation, a bank in its recent attempt at streamlining its planning set off the planning processes by communicating 'policy guidelines' for the budget year to its regional managers which described in detail all the the environmental factors (considered by them in formulating the organizational objectives) including the governmental and central banking operations which were likely to have an impact on the operations of the bank during the budget year. It formulated some broad policies for attaining these goals and specified cost areas which would require special attention (with some reference to desired benchmarks for such cost performance). It was expected that in the coming years the bank would be able to extend the organizational goal setting process to the formulation of desired profit levels. The regions were asked to formulate their own budgets in the context of their particular environmental factors and were required to come up with specific targets of deposits and advances for their own branches as well as revenues, costs, and profits for attainment of the desired organizational objective and goals.

Such planning exercises will lead to a clearly formulated branch plan or budget which provides, in a matrix form, the desired level of deposits and advances in each segment on the one hand and the level of total deposits and total advances on the other. Within each segment, the desired "mix" of the various types of deposits (e.g. current, savings, time deposits, etc.) and advances (e.g. cash credit, overdraft, etc.) would be budgeted in the context of strategies and policies reflected in the corporate policy guidelines. Budgets are, however, only a benchmark for monitoring performance and taking remedial action. Periodic performance reports of branches, regions, and zones (as well as the relative segments) must provide the actual performance data, in relation to the desired or budgeted level of performance, for management control.

The performance reports providing such management information, if prepared and made available expeditiously at the end of the period reviewed, will provide the concerned managers with the required monitoring and management control support which will enable them to take remedial action in respect of shortfalls and to reformulate strategies and policies in the context of current operational and environmental conditions. It needs to be pointed out that, by a process of cross-reference coding, branch performance reports can easily be recomputed for segment-wise performance, comparing the actual performance with the targeted achievement for the use of segment managers in very large and medium size branches, regions, and the central office.

It also needs to be emphasized that without the required systems support in terms of segmental planning, budgeting, and reporting, a structure is likely to be relatively ineffective. It is necessary, therefore, to ensure that the complementary and supportive nature of structure and systems be properly understood and reflected in their respective designs. The symbiotic nature of the structure, and planning and information system can be appreciated if one is to consider the possibility that the authority, responsibility, and resources provided in the structure are substantially different from the modules of activity which are reflected in the planning and reporting system. Conversely, if the planning and budgeting system attained the targets of performance without reference to the market segmentation strategy reflected in the structure, it is likely.
that the quality of management planning and control would be poor, resulting in organizational ineffectiveness.

A planning and information system in alignment with the market segmentation approach referred in the structure will alone allow the segments to operate in optimum level by ensuring that segmental planning is consistent with organizational objectives. Such a system provides information about segments which allows constant monitoring of performance, taking remedial action, formulation of future policies and strategies, and, most important, ensures that the total segmented results are in line with total organizational objectives. In passing, it might be mentioned that if systems and procedures for recording segmented data are clearly and carefully established, the cost of re-computation of segmented data by way of coding is negligible particularly if the reported data is processed by a computer, because the same data base for branch budgeting and reporting can be used for developing segment performance reporting.

**Staffing**

One of the most critical ingredients of effectiveness of any segmented operation would be to provide for the recruitment induction, placement training, evaluation, and development of skilled personnel for manning the managerial posts in the segmented operation. Clearly, the more differentiated operations are, the greater will be the problem of career planning and the keener will be the race from segments to man the relatively few general management positions. Accordingly, policies have to be formulated which will balance the requirements of specialized skills for segmental operations with career growth and planning. A further requirement in the context of segmentation is to build up the acceptance of “staff” positions as desirable and attractive assignments as distinct from line operations with their connotations of power and authority. Carefully designed job rotations involving assignments in various segments as well as in staff and line positions by way of a systematic managerial development plan will go a long way in the acceptance of “staff” roles.

Segmentation will provide many new benefits to Indian commercial banks by way of

(a) development of specialized skills;
(b) systematic and methodical exploitation of potential for growth and development;
(c) formulation of segmental policies leading to better customer service and satisfaction;
(d) cost efficiency;
(e) organizational effectiveness; and
(f) purposive and meaningful management planning and information.

A suggested sequence for introducing market segmentation is outlined in Appendix 6. However, it must be clearly realized that a sound, conceptual, and operational framework cannot by itself lead to effectiveness unless the people in the organization have right attributes and motivation. There are many other factors which will determine this but segmentation can be a very excellent stimulant for developing these qualities and a mutually supportive base for their application.
References


Appendix 1

Schematic Diagram

<table>
<thead>
<tr>
<th>BANKING</th>
<th>Basic Resources</th>
<th>Promotional Resources</th>
<th>Information Services</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Funds</td>
<td>Promotion</td>
<td>Budgeting</td>
</tr>
<tr>
<td></td>
<td>Physical Resources</td>
<td>Customer education</td>
<td>Measuring</td>
</tr>
<tr>
<td></td>
<td>People</td>
<td>Marketing research</td>
<td>Marketing research</td>
</tr>
<tr>
<td></td>
<td>Skills</td>
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<tr>
<td></td>
<td>Data Processing Facilities</td>
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<tr>
<td></td>
<td>Programme 1</td>
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<tr>
<td></td>
<td>Programme 2</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Programme 3</td>
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</tr>
</tbody>
</table>

TOTAL MARKET

j — H Segment ij
Segment 2
j —— r* Segment 3
## Appendix 2 Organization of a Large Branch

| Manager - Commercial & Institutional Banking Division | Manager - Personal Banking Division | Manager - SSI & Small Business Banking Division | Manager - Agricultural Banking Division | Manager - Services Banking Oh/Won
<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits</td>
<td>Deposits</td>
<td>Deposits</td>
<td>Deposits</td>
<td>Executor &amp; Trustee Income-tax Advisory Service</td>
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<tr>
<td>Advances</td>
<td>Advances</td>
<td>Advances</td>
<td>Advances</td>
<td>Cash General Ledger</td>
</tr>
<tr>
<td>Collections</td>
<td>Collections</td>
<td>Collections</td>
<td>Collections</td>
<td>Inter-office Accounts</td>
</tr>
<tr>
<td>Purchases</td>
<td>Purchases</td>
<td>Purchases</td>
<td>Purchases</td>
<td>Clearing</td>
</tr>
<tr>
<td>Remittances</td>
<td>Remittances</td>
<td>Remittances</td>
<td>Remittances</td>
<td>Returns</td>
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<tr>
<td>Rupee Travellers Cheques</td>
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<td>MTS Paid</td>
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<tr>
<td></td>
<td></td>
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<td></td>
<td>Dfts paid</td>
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<tr>
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<td></td>
<td></td>
<td></td>
<td>TTs pakJ</td>
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<td></td>
<td></td>
<td></td>
<td>Despatch</td>
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<td></td>
<td>Stationery</td>
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<tr>
<td></td>
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<td></td>
<td></td>
<td>Record*</td>
</tr>
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</table>

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## Appendix 3 Organization of Local Head Offices

<table>
<thead>
<tr>
<th>CHIEF GENERAL MANAGER</th>
<th>Development Manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Officer</td>
<td>____________________</td>
</tr>
<tr>
<td>Central Management Committee</td>
<td>Advances Commercial &amp; Institutional Banking</td>
</tr>
<tr>
<td>General Manager (operations)</td>
<td>Genera* Manager (planning &amp; staff)</td>
</tr>
<tr>
<td>Planning, Budgeting, Functional Specialists Staff Specialists Office Manager Analysis &amp; Review</td>
<td></td>
</tr>
<tr>
<td>Manager (planning) Development Managers Regional Regional Regional</td>
<td></td>
</tr>
<tr>
<td>Economic Analysis &amp; Review SSI &amp; Small Business Public Relations Establishment Manager Transport &amp; Travel branches</td>
<td></td>
</tr>
<tr>
<td>Planning &amp; Budgeting 75 Analysis &amp; Review Agriculture Branches</td>
<td></td>
</tr>
<tr>
<td>International Banking 75 Branches</td>
<td></td>
</tr>
<tr>
<td>MIS and DPC Special Officer (lead districts)</td>
<td></td>
</tr>
</tbody>
</table>

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### Appendix 4 Central Office Organization

**Chairman**

**Managing Director**

- **Central Management Committee**
  - Dy. Managing Director (Banking Operations)
  - Dy. Managing Director (Personnel and Services)
  - Dy. Managing Director (Planning & Research)

- **Investment Committee**
  - Chief Officers
    - Personal & Service Banking
    - Small Scale Industries & Small Business Banking
    - Agricultural Banking
    - International Banking
    - C & I Banking

- **Audit of Local Head Office and Branches**
  - Chief Officers
    - Staff Specialists
    - Chief Officer-Personnel
    - Chief Officer-Public Relations
    - Chief Officer-Law
    - Chief Officer-Premises
    - Chief Officer-Security
    - Chief Officer-Computer Services

- **Subsidiary Banks**
  - Chief Officers
  - Control & General Matters
    - Office Manager
    - Stationery
    - Establishment
    - Transport & Travel
    - Upkeep of Premises & Canteen
    - General Matters

- **Functional Specialists**
  - Credit
  - Operations

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Chief Officers

Long Range & Annual Planning (Analysis & Review)

Economic & Statistical Research

Management Science 0 & M

MIS

Official Languages

Organizational Planning
Appendix 5

Policy Guideline Development Process Flow Chart

CENTRAL OFFICE

- Economists
- Socialists
- Executives

Working papers relating to bank’s business in different areas and macro level forecasts of potential business

Draft corporate policy guidelines

I

Operational Trend Analysis
Economic Analysis
Environmental scanning of likely significant trends in Industry, Agriculture, Government regulations, national economic policies, etc.

Tentative levels of desired performance in different sectors of activities (based on macro economic and operational studies)

Meeting of Chairman, Managing Directors, Deputy Managing Directors, and Chief General Managers

CIRCLE POLICY GUIDELINE

Levels of performance in different market segments

LOCAL HEAD OFFICE

- Operational trend analysis relating to business in different market segments
- Economic analysis relating to area covered by Circle
- Environmental scanning of likely trends in industry, agriculture, government regulations, etc.

Tentative targets for different market segments

Oi

BRANCH

- Operational trend analysis
- Economic analysis
- Environmental scanning

CORPORATE POLICY GUIDELINES

Suggested directions and thrust of bank’s activities

Expected and desired levels of performance for segments and activities for Circles

Desired levels of performance of deposits and advances of Circles.

Draft budget formats
Appendix 6

A SUGGESTED SEQUENCE FOR INTRODUCTION OF MARKET SEGMENTATION IN COMMERCIAL BANKS

1. Assess the size, diversity, and the needs of different customer groups in the bank’s operations.
2. Decide upon the criteria to be adopted for market segmentation.
3. Develop working rules to help the units, i.e., branches and regional offices, to stratify accounts in terms of the segments identified.
4. Introduce new methods of recording, collating, collecting, and analysing data for segments separately.
5. Carefully assess the requirements of segmentation in large and medium branches.
6. Identify personnel to head segmented units at the medium and large branches and to man the positions of development managers (of the various segments) in the regional and central offices.
7. Carefully evaluate factors affecting the operations of segments during the next year, next three years, and next five years by way of analysing internal and external environment factors and competitive trends.
8. Carry out a similar operation for determining the potential of segmental operations in medium and large branches as well as in the regions.
9. Develop corporate policy guidelines by an iterative process by balancing plans of future operations of each segment, and integrating them with organizational goals and objectives.
10. Develop regional policy guidelines with specific targets for segmental operations and policies.
11. Design a management planning and information system which enables segmental targets to be compared with actual performance for each segment at the branch, regional, and central office levels by way of successively aggregated data.
12. Introduce the required modifications to procedures, systems and practices (including classification of ledgers), accounting systems, record keeping, etc.
13. Develop and formulate personnel policy for recruitment, placement, appraisal, promotion, and job rotation of segmental personnel.
14. Develop organizational structuring, ensuring the integration of segmented operations into cohesive branch, region, and central office operations, and issue circulars outlining authorities, roles, and responsibilities for executives associated with segmental operations as well as overall locational management.
15. Continually assess changes in the nature of the market served, needs of customer groups, and make amendments to the scheme of market segmentation as and when required.