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Shyam Singh Bhati
University of Wollongong

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Role of Trust in the Relationship between Branch Managers and Loan Officers of Bank Branches in India

A Thesis submitted in fulfilment of the requirements for the award of the
degree of

DOCTOR OF PHILOSOPHY

from

UNIVERSITY OF WOLLONGONG

by

Shyam Singh Bhati

B.Sc., M.Sc., Ph.D., M.Admin., GCPA

**School of Accounting and Finance
2009**

Declaration

I, Shyam Singh Bhati, declare that this thesis, submitted in fulfilment of the requirement for the degree of Doctor of Philosophy, in the School of Accounting and Finance, University of Wollongong, is wholly my own work unless otherwise referenced or acknowledged. The document has not been submitted for qualifications at any other academic institution.

Wollongong

November 2009

Shyam Singh Bhati

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Glossary

CGF	Credit Guarantee Fund
CIBIL	Credit Information Bureau (India) Limited
Crore	Ten Million
CRR	Cash Reserve ratio
DICGC	Deposit Insurance and Credit Guarantee Corporation of India
DRI	Differential Rate of Interest
DTL	Demand and Term Liabilities
EXIM	Export and Import Bank of India
FICCI	Federation of Indian Chamber of Commerce and Industry
IDBI	Industrial Development Bank of India
IFCI	Industrial Finance Corporation of India
IRDP	Integrated Rural Development Programme
Lac	One hundred Thousands
LBS	Lead Bank Scheme
NABARD	National Bank for Agriculture and Rural Development
NPA	Non Performing Assets
OBC	Other Backward Communities
RBI	Reserve Bank of India
SBI	State Bank of India
SC/ST	Scheduled Caste/Scheduled Tribes
SFC	State Finance Corporation
SIDBI	Small Industries Development Bank of India
SIDC	State Industrial Development Corporation
SLR	Statutory Liquidity Ratio
SME	Small and Medium Enterprises
SSI	Small Scale Industries
SWIFT	Society for Worldwide Interbank Fund Transfer

Abstract

Banks in India operate in a very different lending environment as compared to western banks because there is considerable state intervention in bank lending in India. Conventional instruments based methods of risk evaluation have limited use for banks in India because many additional variables required cannot be quantified easily for Indian banks. This thesis uses a social risk evaluation process based on Ferrary's (2003) notion of social capital and model of trust developed by Mayer et. al (1995). A framework of trust between branch manager and loan officer of bank branches in India is developed and empirically studied in this thesis. The purpose is to observe the role of trust in the relationship between branch managers and loan officers. Three research issues are studied in this thesis. The first issue is to identify the significant factors of trustworthiness that operate between branch managers and loan officers. The second issue is to identify the stage of trust development between branch managers and loan officers. The third issue is to observe the effect that trust between branch manager and loan officer might have on the lending performance of bank branches in India.

A framework of trust between branch managers and loan officers is developed. According to this framework, a branch manager and loan officer develop a trusting relationship because of the risk they face in lending business. Both branch manager and loan officer have incentive to trust each other due to risk in lending. Trust between branch managers and loan officers is based on key factors of trustworthiness. These are: similarity, knowledge, benevolence, behavioural integrity, behavioural consistency, communication and culture. Culture as a factor of trust is considered for the first time in this thesis in the context of Indian banking. Trust between branch managers and loan officers develop in stages as suggested by Lewicki and Bunker (1996).

A case study method is used to collect and analyse data. Eight cases comprising of eight bank branches in India are studied in the present research. A Pattern Matching procedure developed by Troachim (1989) is used to match the theoretical construct with the observed data. The software NVivo was used to analyse collected data through interviews in eight cases. Each case was first analysed separately and then a cross case analysis was done through variable oriented analysis.

It is concluded in this thesis that trust between branch manager and loan officer of bank branches depends on characteristics of trust identified in the theoretical framework. Each of the trust factors namely similarity, knowledge, benevolence, behavioural integrity, behavioural consistency, communication and culture contributes to trust between branch managers and loan officers of bank branches in India. Also, the trust between branch managers and loan officers develop in three stages of trust: calculus based trust, knowledge based trust and identification based trust. Trust between branch managers and loan officers, contributes significantly to the improvement in lending performance of bank branches in India.

In addition to significant contribution made through the research questions, this thesis also contributes to the literature by examining critically the problems associated with the banking system of India. This thesis examines in detail the structure and working of bank branches in India. This thesis also explores the role that organisation rules and structure of banks have on the relationship between branch managers and loan officers of Indian bank branches.

This thesis is limited by the fact that only eight bank branches are studied, which is not a very large sample of Indian banking industry. The data and conclusions are based on perception of branch managers and loan officers, which can be subjective. These perceptions may have limitations in generalisations. However no generalisation is attempted here. The purpose of this thesis is to study in-depth the relationship between branch managers and loan officers of Indian banking systems. These limitations however do not reduce the significance of conclusions reached here as these conclusions can be extended to other banking systems and replicated in different banking environments. Conclusions reached in this thesis have implications for decision making at the bank branch level and for higher management supervising bank branches in India and in other countries.

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Chapter 1

Introduction

1.1 Background of this study

A bank's survival and its ability to compete in the market depend on how well it profitably uses its resources to earn income. Lending function of a bank is an important aspect of this income generation. At least seventy per cent of a bank's assets are still in the form of loans. Therefore, how well these resources will earn income for the bank will depend on the credit philosophy and management, risk management policy put in place and the structure of credit organisation of the bank. Every bank has processes in place to carry out these policies and procedures and monitor its loans. A bank branch is an important part of the organisation because a bank branch represents a bank at the local level and sells its products and services to customers. A branch is the first point of contact between bank and customer (Hogan et. al, 2005, p. 275)

The two most important functionaries at the branch level who carry out the lending function are branch manager and loan officer. A branch manager is responsible for the supervision of all functions at the branch including its lending function. A loan officer helps the branch manager to carry out the lending functions which include marketing of lending services, managing lending organisation at the branch level, documentation, monitoring of loans, credit risk management, liaising with head office and other organisations with regard to lending policies and issues. The relationship between branch manager and loan officer is crucial in determining how well the lending management of the branch will be carried out and how well the credit risk will be managed at the branch level.

Banks play a major role in provision of credit to businesses and consumers in India. The branch of a bank plays a critical role in lending in the context of the Indian banking system. There are about 76,000 branches in India which deliver banking services to a population of 1.25 billion people. The importance of bank branches in lending activity increased in India after the nationalisation of banks in 1969. After the nationalisation of banks, there was a great expansion of bank branches in India. Banks became instrumental in the implementation of social banking policy of the Government of India. A branch of the bank is a place where most of the lending occurs in banks. Branch managers and loan officers are key players in the lending business of the branch. The geographical and functional expansion of the banks created an atmosphere where the branch managers and loan officers of bank branches were subjected to government directives on lending. The pressure created by the government directives on lending increased the dependence between branch managers and loan officers of bank branches. The relationship between branch managers and loan officers is important in proper delivery of lending services, risk management and credit management of the banks at the branch level in India.

1.2 Research Questions

The relationship between branch manager and loan officer is multi-faceted. Both branch managers and loan officers are accountable to many people in the organisation and also outside the organisation. Branch managers are superior officers of loan officers in banking organisation. Therefore, there is a superior - subordinate relationship between branch manager and loan officers. The branch manager may delegate a part of their lending authority to loan officers. The delegation creates dependence between branch manager and loan officer. In situations involving dependence between branch managers and loan officers, trust is considered as an appropriate descriptor of the

relation between people. In situations involving superior - subordinate relationship such as the one between branch manager and loan officer, trust can be used to describe the relationship between the two (Jennings, 1971; Valez, 2000).

Further, both branch manger and loan officers are involved in the business of lending to customers. The lending business involves taking informed risk on loan application, the outcome of which remains uncertain to both branch manager and loan officer. Cooperation and trust between branch manager and loan officers may help in improving the lending performance of the bank branches. The branch Managers and loan officers have similar goals of improving the lending performance of the branch. In situations of similar goal congruence, trust theory is useful in describing interpersonal relationships.

In this thesis, an attempt is made to describe and understand the relationship between branch managers and loan officers in Indian banks using trust theory. A branch manager is defined as a person who is responsible for managing a bank branch of a nationalised bank in India. The branch manager is responsible for the overall supervision of the branch and supervises a loan officer in that capacity. The branch manager is granted discretionary powers by the head office of the bank in regard to lending operations. The loan officer is a person who is responsible for supervising loan function of a bank branch of a nationalised bank in India. The loan officer is supervised by branch manager in all his/her lending operations.

The branch manager is in charge of the branch and supervises all staff and officers including loan officer. The branch manager is responsible for the growth and development of banking business in the branch including lending business. The branch manager is also responsible for the achievement of performance targets of the branch in deposits, lending and overall profitability of the branch. The branch manager takes

lending decisions based on the recommendations of the loan officer for specified categories of loans. The ultimate discretionary powers rest with the branch manager who may disagree with the recommendations of the loan officer and may allow/disallow a loan application contrary to the recommendations of the loan officer. The branch manager is allocated discretionary powers for that purpose by the head office of the bank.

The loan officer of the branch supervises the loans department and reports directly to the branch manager on loan management. The loan officer processes the loan applications received at the branch. He/she assesses the loan application based on the lending criteria of the bank on a specified lending activity. He/she also sets possible terms and conditions about repayment of loan, quantum of loan, interest rate and fee charged, any lending covenants in place which may be agreed upon by the branch manager, if the branch manager decides to accept the loan application. The loan officer also reviews and monitors the loan renewals, determine the cause of problems, if any, with the existing loans and devise future course of action for banks in case of problem loans. The loan officer obtains documentation on loan and gets them renewed as required.

Trust in this context is defined as the mutual dependence between branch managers and loan officers and their willingness to be vulnerable to the action of the other based on the expectation that both branch managers and loan officers have a high degree of trustworthiness and will perform particular actions important to the other, irrespective of the ability to monitor and control the action of the other (adapted from Mayer, Davis and Schoorman, 1995, p.724).

The definition of Mayer, Davis and Schoorman (1995) assume that branch managers and loan officers would place themselves voluntarily into a relationship of

mutual trust. However, branch managers and loan officers are part of banking organisations. As part of the banking organisation, it is possible that branch managers and loan officers do not enter into a trust voluntarily. They may be placed in their respective positions by the bank. However, once they establish trust a mutual expectation between each other reinforces an expectation that trust will not be broken by the other.

Key factors of trustworthiness of branch manager and loan officer are defined as those attributes of the branch manager and loan officer that help them in building, developing and sustaining mutual trust (Mayer, Davis and Schoorman, 1995).

Trust develops gradually and in stages between branch manager and loan officer. The movement of trust takes place in stages. Three stages of trust development are: calculus based trust, knowledge based trust and identification based trust. Each of these stages are characterised by certain key activities on the part of branch manager and loan officer (Lewicki and Bunker, 1996).

Trust between branch manager and loan officer may lead to improvement of lending performance of the bank branch in India. The improvement of lending performance of the branch is studied on the following indicators: Number of loan accounts, rupee amount of loans disbursed, implementation of head office/Reserve Bank of India directives and policies, recovery of non-performing assets, improvement in generation of interest income/fee income on loans and increase in profitability of loans.

This thesis focuses on three critical aspect of the relationship between branch manager and loan officer. viz., (i) key factors of trustworthiness in the lending relationship between branch managers and loan officers, (ii) the stages of trust development between branch managers and loan officers, and (iii) the effect that trust

between branch manager and loan officer might have on the lending performance of bank branches in India. The following research questions are studied in this research.

1. What are the key factors of trustworthiness between branch managers and loan officers of Indian bank branches?
2. What are the stages of development of trust between branch managers and loan officers of Indian bank branches?
3. What is the effect of trust between branch manager and loan officers on the lending performance of bank branches in India?

1.3 The purpose of this study

The purpose of this study is to investigate the role of trust in developing and sustaining a relationship between branch managers and loan officers of Indian bank branches. Indian banking system has undergone considerable change in last two decades but is still a developing market for financial services such as banking and insurance. This research focuses on three aspects of trust between branch managers and loan officers. The first aspect is the key factors of trustworthiness between branch managers and loan officers. Second aspect is the stages of trust formation and development between branch managers and loan officers. The third aspect is the effect that trust between branch manager and loan officer might have on the lending performance of bank branches in India.

The objectives of this thesis are achieved as follows. Firstly, based on the theoretical model of trust developed by Mayer, Davis and Schoorman (1995), a framework of trust is developed in order to understand the relationship between branch managers and loan officers. The framework of trust between branch manager and loan officer helps in understanding the key factors of trustworthiness between them required for development of trust. Secondly, the stages of trust development and key activities

performed by branch managers and loan officers in various stages of trust development are examined using the stages of trust development proposed by Lewicki and Bunker (1996) and Lewicki et al. (2006). Thirdly, the effect that trust between branch manager and loan officer might have on the lending performance of bank branches is examined by observing the increase/decrease in selected lending indicators of branch performance.

1.4 Motivation for this study

There is not much literature on trust in banking. Although trust is known to improve business performance in many ways, there is no study on the effect that trust between branch manager and loan officer may have on the lending performance of the bank branches. Most literature on trust in lending relationships focuses on trust between the bank and borrowing customers. Lehman and Neurberger (2001) provide an empirical analysis of bank lending to small and medium sized firms in Germany. Petersen and Rajan (1994) show that bilateral credit relationship between a bank and its customer is considered enduring if both parties have dealt with each other for some time, developing mutual trust. The studies of Lehmann and Neurberger (2001), Mayer (1988) and Burghoff (2000) suggest that continuing relationship between bank and its customer is beneficial to the bank and customer alike and that quantitative variables used by banks in their credit evaluation process are not enough for credit risk management. Banks have to look into social interaction between the bank and borrowers in order to reduce credit risk. Ferrary (2003) analysed the trust relationship between bank's financial counsellor (Loan Officer) and customer and concluded that trust between financial counsellor and customer leads to better credit risk management for the banks. The bank through social interaction with customer can obtain better

information which can be incorporated into credit evaluation and debt covenants. This helps the bank in reducing credit risk.

This study argues that trust between branch manager and loan officers of bank branches is critical in management of lending portfolio of bank branches. Both the branch managers and loan officers are the two most important players in lending management of the bank branches. Their relationship would determine the outcome of lending activities in the branch, management of lending function and lending performance of the bank branch. Branch managers and loan officers in Indian bank branches face a number of risks which are determined by Indian banking environment. In order to reduce these risks and improve the lending performance of bank branches, branch managers and loan officers enter into a trust relationship. The benefits of entering into trust are more than the perceived cost of not having trust.

Trust between branch managers and loan officers depend on a number of factors of trustworthiness. Further, trust between branch managers and loan officers develop in stages. Each stage is characterised by certain activities. The purpose of trust is to improve the lending performance of bank branches in India. Trust is beneficial to both branch managers and loan officers as improvement in lending performance is beneficial to both the branch managers and loan officers in their careers and in the business development of the banks.

1.5 Indian Banking Environment

The Indian banking structure has experienced many changes since 1969 when the banks were first nationalised by the Government of India. The Indian banking system saw massive expansion after 1969. With the increase in number of branches and number of customers, the demand for the banking services also increased which resulted in a rise of awareness of banking services. Along with expansion of banking system, the

government's policies increased expectations among the customers. The increase in customer expectations arises directly because of the government's policies which need to be observed by the branches of the banks. The branch managers and loan officers of bank branches are accountable to the government for implementing these policies and are required to put in place strategies at the branch level which will address customer expectations and also satisfy the government's policies. Some of the policies of the government have the effect of increasing the risk of operations for the branch managers and loan officers of bank branches whereas other policies help in reducing the credit risk for bank branches. The increase in credit risk for banks is evidenced by the large number of non performing assets of banks in India (Kannan, 2007).

In addition to the credit risk created for banks as a consequence of following the policies of the government, there are additional problems encountered by banks in India. The first problem is the difficulty in accessing the information by lending institutions in regard to the borrower's credit history and financial movements in the past. In India, databases on past credit history of borrowers are non-existent and banks have to rely on the estimates made by their branch managers and loan officers on the assets and liabilities, income and creditworthiness of the borrowers.

The second problem is that lenders in India do not have the same level of legal protection as lenders in the Western countries. The financial law is still not very well developed and the enforcement of financial contracts through the legal system is time consuming and costly. In countries like India where companies have little or no access to courts in enforcing contracts, they have to rely on other forms of dispute resolution mechanisms such as social networks, trade associations and private channels. The use of these alternatives could lead to loss of social and economic value. The loss of economic value has the potential of increasing business risk for companies including banks.

The increase in risk creates a relationship of dependence between branch managers and loan officers in the Indian banking system. Given this risky situation, trust becomes an important part of the relationship between branch managers and loan officers. The risk arises due to substantial costs to both branch managers and loan officers in the observance of government guidelines and policies. In such a context, trust theory is suitable in describing this particular relationship. Trust theory is useful in identifying influential factors in the relationship which contributes to the growth and development of relationship securing good outcome for both branch manager and loan officer. By using trust theory the factors that can help in developing, growing and maturing this relationship can be described. The role of trust in this relationship is described next.

1.6 Trust in Business Relationships

Trust plays an important role in business relationships. Every business faces certain risks in their operations. Trust is needed in a risky and uncertain environment because trust helps in developing relationships in business. There are many benefits of trust listed in the literature such as the maintenance of harmony in business relationship (Lewis and Weigert, 1995), a reduction in cost of monitoring behaviour (Shapiro, Sheppard and Cheraskin, 1992), speedy decision making and a reduction in transaction costs (Creed and Miles, 1996), improvement in business performance and quality of business relationships (Shamwell, Cronin and Bullard, 1994; Inkpen and Currell, 1997). Trust also leads to improvement in business performance because it is an important component of business partnerships, strategic alliances in business and helps in developing business networks. Trust helps to enhance business performance through reduction in transaction costs (Chow, 2008)

1.7 Trust in Banking

The study of trust in banking is very recent. The body of literature on trust in banking can be classified into two categories. One is the trust between bank and customer and the second is trust between various functionaries within bank. The first type of relationship between bank and customer has been studied by Lehman et al. (2001), Mayer (1988) and Ferrary (2003). The study of Lehman et al. (2001) provides the evidence that the availability and terms of loans set by banks for customers are influenced not only by firm characteristics but also by the social interaction between loan officers and firm managers. The social interaction indicates mutual trust between firm and bank. Mayer's (1988) study suggested that close ties between banks and corporations enhances the availability of loans and reduces the cost of loans to firms. Petersen and Rajan (1994) have shown that a bilateral credit relationship between bank and customer is considered as enduring when both parties have dealt with each other for some time. The studies of Lehman et al. (2001), Mayer (1988) and Burghoff (2000) further suggest that continuing relationship between bank and borrowing customer is beneficial to the bank and the customer. The quantitative variables used by banks in their credit evaluation process do not go far enough in credit risk management. Banks also have to look into the social interaction between the bank and the borrower in order to reduce the risk to the bank.

Ferrary (2003) in his paper has shown that trust between bank and customer creates some benefits for the bank. Establishing a friendly relationship with the client allows the bank to gather better information from the client about the client's business situation and helps in reducing the moral hazard to the banks. The information gathered by banks through social networks allows better risk evaluation than the instrumental evaluation alternatively used. It is very difficult for a banker to anticipate every possible situation when lending money to customers and incorporates all the uncertainties in

lending contract. Even if a banker takes all possible precautions the lending contract may remain incomplete. The risk induced by incompleteness of lending contracts can be reduced by developing social bonds between the bank's financial counsellors and borrowers. This trust between bank's financial counsellors and borrowers help in providing access to information to banks, which may otherwise be not available to bank. The bank can then incorporate this information into lending contracts and reduce its credit risk.

This thesis investigates the second type of trust relationship in banking – the relationship between branch managers and loan officers. Branch managers and Loan officers are the two most important players at the branch level involved in the lending management of the bank branch. The relationship between branch manager and loan officer is critical in determining the lending performance of the bank branch. Both branch manager and loan officer take risks on behalf of the bank when they lend money to customers. The credit risk of a loan is determined by the way in which the information on the loan is collected, assessed and evaluated by loan officer and decision taken by the branch manager. The loan officer does all the work for the branch manager in credit assessment, setting terms and conditions for loan covenants, monitor loans and make recommendations on loan applications. The branch manager takes decisions based on loan officer's recommendations on the loan applications.

Branch manager and loan officer have to depend on each other for proper lending management of the branch. In situations involving risk management and mutual dependence, trust is considered important in describing the mutual relationships. (Michaelis, 1990; Gambetta, 1988). The relationship between branch manager and loan officer is considered multi-faceted. Both branch manager and loan officer work for the bank. They have responsibilities to many people in the organisation and outside the

organisation such as head office, regional office, local government organisations and the Reserve Bank of India. Trust theory is relevant in multi dimensional relationship discussed here (Lewicki and McAllister, 1998).

Both branch manager and loan officer are part of a banking organisation. Because of an inequality between the two positions, branch manager is a superior officer and the loan officer is a subordinate officer. The mutual relationship between supervisor and subordinate can be described by trust. According to Jennings (1971) trust by a superior is considered essential for the promotion of the subordinate. Gabarro (1978) has found that trust by the subordinate is essential for effective action of the supervisor. Trust by branch manager is essential if the loan officer wishes to progress within the organisational hierarchy and trust by loan officer is essential for producing effective lending performance of the branch by the branch manager.

Both branch manager and loan officer are involved in the business of lending to customers. The lending business involves assumption of risk by the branch manager and the loan officer. The lending function of branch manager and loan officer involves taking informed risk on loan applications, the outcome of which could be uncertain to both branch manager and loan officer. The gains and losses of both branch managers and loan officers are reflected in the organisational gains and losses at the branch level. Branch managers and loan officers are in a situation of mutual dependence and vulnerable to the actions of others. Trust theory is useful in describing a relationship involving mutual dependence and vulnerability. Both the branch managers and loan officers have goal congruence because both of them have the goal of improving the lending performance of the branch of the bank. In situations of goal congruence/goal orientation, as the one between branch manager and loan officer trust theory is able to describe the interpersonal relationship well.

This thesis argues that trust plays an important role in determining the lending relationship between branch manager and loan officer. The quality of relationship will be determined by the degree of mutual dependence of one party over the other and the improvement in the lending performance of the bank branch due to trust between branch manager and loan officer. This thesis further argues that trust between branch manager and loan officer is determined not only by the risky situation of lending they work in but also by a variety of factors inherent to trust relationship as exhibited by the branch manager and loan officer. The factors may include knowledge or ability (Cook and Well, 1980, Valez, 2000), reliability and honesty (George and Swap, 1992; Wintoro, 2000), benevolence (Mayer, Davis and Schoorman, 1995), consistency and communication (Whitener et al, 1998).

Further, the trust between branch manager and loan officer appear to develop through a number of stages (Shapiro, Sheppard and Cheraskin, 1992; Lewicki and Bunker, 1996; Lewicki et. al, 2006). Each stage of trust depends on certain characteristics which determine how well the trust relationship will develop, grow and mature over a period of time. Lewicki et al (2006) and Lewicki and Bunker (1996) have suggested that developing trust takes place in three stages – calculus based trust, knowledge based trust and identification based trust.

The trust between branch manager and loan officer is not always voluntary because both the branch manager and loan officer are part of an organisation and who are placed in these positions by the organisation. The trust between them develops in stages. Lewicki and Bunker (1996) model three stages of trust development which may help in explaining how trust between branch manager and loan officer develops. The first stage of calculus based trust is characterised by considerations of cost/benefits of trust and by a threat/reward system that may be used by branch manager and loan

officer. The second stage is characterised by knowledge development between branch manager and loan officer. The third stage is characterised by the trusted identifying himself/herself with the actions of the trustee. In this stage the branch manager may delegate part of their lending authority to the loan officer. The loan officer may assume risk in accepting the delegated lending authority. This thesis will explore the stages of trust development of branch manager and loan officers and how the theoretical model of Lewicki and Bunker (1996) explain the stages of trust between the branch managers and loan officers.

1.8 Research Design

This research is designed to fulfil the objectives of this study as set out on Section 1.3 of this chapter. First a theoretical framework of trust was developed which describes the trust relation between branch managers and loan officers of Indian bank branches. Based on the theoretical framework of trust between branch manager and loan officers, empirical data on key factors of trust between branch managers and loan officer, stages of trust development between branch managers and loan officer and the effect that trust might have on the lending performance of bank branches in India was collected.

The data for this study was collected from eight branches selected in the Indian banking system. The branch managers and loan officers of these branches were chosen for interviews to obtain data required for this study. The criteria adopted, was based on the accessibility of the branch managers and loan officers. This sample is considered adequate for the theoretical or purpose sampling. The purpose of this study is to conduct an in depth analysis of several individual cases. The evidence from eight cases is considered sufficient to provide support for the study proposition and provide evidence on trust factors between branch managers and loan officers, on the stages of trust development between branch managers and loan officer and on the relation of trust

between branch managers and loan officers with the lending performance of the bank branches in India.

Interviews were conducted to collect the data for the case studies. The interview technique is helpful in collecting the data because the interview technique is flexible and interactive. The interviewees can understand the purpose of the questions and respond accordingly. The interview technique gives opportunity to the interviewees to put forward their viewpoint. The interview technique is helpful in evaluating the quality of data collected. The branch managers and loan officers were selected based on the relevant criteria of availability and expertise in their job. The semi-structured format was used because the interviewees are experts on their subjects and were allowed maximum time to give their perception on the questions asked.

The data obtained through the interviews was analysed using Pattern Matching technique developed by Troachim (1989). Pattern matching links theory and relates it to observed data. The specific theoretical framework of trust developed for branch managers and loan officers of Indian banks was used as the theoretical construct. The theoretical construct was then related to the observed pattern of key factors of trust between branch manager and loan officers. The observed stages of trust development between branch managers and loan officers were related to the theoretical model of stages of trust development of Lewicki and Bunker (1996). Also the effect of trust on lending performance of bank branches were analysed using the interview response data collected from branch managers and loan officers. NVivo software was used to analyse the data collected. Each case was analysed separately. The purpose of analysis of each case is to develop deeper understanding of a particular case. In addition, a cross case analysis of all cases were done through variable oriented analysis. The analysis of observational data was completed in order to establish the key factors of trust between

branch managers and loan officers, in relation to the stages of trust development between branch managers and loan officers and the effect that trust might have on the lending performance of bank branches in India.

1.9 Contributions of this thesis

The first contribution of this thesis is to develop a framework of trustworthiness between branch managers and loan officers of Indian bank branches. This framework is based on the existing model of trust developed by Mayer, Davis and Schoorman (1995). In this framework the issue of risk caused by lending environment will be examined as distinct element from the risk caused to trustor and trusted when they enter into a trust relationship. The framework is expected to be specific to trust between branch managers and loan officers of Indian bank branches and additional factors of trustworthiness specific to the Indian banking environment are expected to be included in the framework.

The second contribution of this thesis is to provide empirical evidence of the key factors of trustworthiness between branch managers and loan officers of Indian bank branches. This study also examines the role of various factors of trustworthiness in this relationship.

The third contribution of this thesis is to provide empirical evidence of key stages of trust development between branch managers and loan officers and to apply the arguments of Lewicki and Bunker (1996) to the relationship between branch managers and loan officers that trust develops gradually through stages.

The fourth contribution of this thesis is to provide empirical evidence of the effect that trust might have on lending performance of bank branches in India. The effect of trust on various lending indicators is expected to be studied for this purpose.

The fifth contribution of this thesis is to provide information for branch managers and loan officers of bank branches which will help them in developing and sustaining trust between themselves. This information may help them in developing strategies, policies and procedures at the branch level and at the corporate level for proper placement of the people and development of human resource policies. The expected contribution of this thesis is to provide insights into all bank branches, particularly, bank branches in developing countries although only Indian bank branches are expected to be studied in this thesis.

1.10 Limitations of this thesis

The first limitation of this thesis is that it focuses on eight branches of Indian banking system which consist of over 76,000 bank branches. Since it is not possible to conduct a similar study on all bank branches in India for pragmatic reasons, an attempt has been made to cover as many branches as possible in this study. The findings of this research may be too limited to the specific context of bank branches selected and may not be generalised. The second limitation is that this research studies only a specific relationship between branch managers and loan officers. Although branch managers and loan officers are two of the most important functionaries in credit management of branches, there are other people involved in the management of bank branches. Their contribution in lending management will be taken as an externality in this study. The third limitation of this study is that data collected here is based on semi-structured interviews of branch managers and loan officers. Their perceptions are recorded as a data set in semi-structured interviews. These perceptions are subjective perceptions of branch managers and loan officers. The subjectivity of these perceptions does not reduce the significance of this study. The observations recorded help in investigating an area of study which has not been studied before. Further, the conclusions arrived in this

thesis are based on Indian observations, the conclusions can be extended to other cultural and banking environment.

1.11 Structure of this thesis

This thesis consists of eight chapters. Chapter one provides an introduction of the problem and defines the research questions addressed in this study. This chapter also sets out the purpose behind conducting this study and motivation of this thesis. The research design and main contributions of this thesis are also introduced in this chapter. Finally the structure of this thesis is also given at the end of the chapter.

Chapter two describes the organisation of the Indian banking system as background for understanding the historical, organisational and policy context in which branch manager and loan officers of Indian bank branches operate. In this chapter, the operational and regulatory structure of the Indian banking system is discussed. An understanding of the Indian banking system helps in identifying the business and regulatory constraints that influence the trust between branch managers and loan officers.

Chapter three establishes that Trust theory is most appropriate theoretical approach to understand the behavioural issues and factors in the relationship between branch managers and loan officers of bank branches in India. The chapter begins with a study of literature on Agency theory and Trust theory. The suitability of Agency theory and Trust theory is examined to describe the relationship between branch managers and loan officers. It is concluded that Trust theory is more appropriate to describe this relationship between branch managers and loan officers. In this chapter, a theoretical framework based on trust theory is developed which helps in describing various factors of trust between branch managers and loan officers. The stages of trust development between branch manager and loan officer are also described in this chapter. Further,

trust between branch manager and loan officer is linked to the lending performance of bank branches in India.

Chapter four describes the research design used to define and explain the approach used in this empirical study. This chapter explains how the data was defined, collected, recorded and organised. Finally the method used in the analysis of data is also described in this chapter.

In chapter five, a detailed description of eight branches used as cases that provide the foundation for empirical data collection and analysis in this thesis is given. In each of the eight cases, relevant background information about each branch is given. The background information is divided into two parts. The common features of organisation of all the branches are described first. The distinct features of location, size and nature of branch business are described later.

In chapter six, each case which forms part of the observational pattern is analysed in terms of the theoretical framework of trust developed in chapter three of this thesis. The empirical observations are analysed on all the three components of this study, namely, key factors of trust development between branch managers and loan officers, the stages of trust development between branch managers and loan officers and the effect of trust between branch managers and loan officers on the lending performance of bank branches in India.

In chapter seven, a cross case analysis is done across all the cases studied in this thesis. The group of observed cases are compared based on common attributes of factors of trust, stage of trust development and lending indicators of bank branches. The purpose is to understand common factors in different cases. The reasons behind exceptions observed, if any, are investigated in detail and contradictions across cases are examined. Common themes across cases are identified. This analysis helps in

comparing the empirical observations relative to the theoretical pattern across different variables.

Research contributions of this thesis are summarised in chapter eight. The findings relate to the role of trust in describing the relation between branch manager and loan officers on Indian bank branches, key factors of trust between branch managers and loan officers, stages of trust development between branch managers and loan officers and the effect that trust between branch managers and loan officers may have on the lending performance of bank branches in India. The limitations of this research are also described in this chapter. Lastly, possible implications of this research for management of bank branches in India are discussed.

Chapter 2

Banking System of India

2.1 Introduction

This thesis investigates the role of trust in building a relationship between the branch manager and loan officer of Indian bank branches. The investigation focuses on three aspects. (i) the effect of trust between branch manager and loan officer of Indian bank branches on the lending performance of branches; (ii) key factors of trustworthiness of lending officers from the perspective of a branch manager and key factors of trustworthiness of a branch manager from the perspective of a loan officer; and (iii) various stages of development of trust between the branch manager and loan officer of bank branches in India. This relationship between the branch manager and loan officer arises as a result of the branch manager having the power to supervise the loan officer and the ability of the loan officer to provide lending services needed by the branch manager. Both of these functionaries – branch manager and loan officer – are part of an organisation and perform their role and function within the context of the banking system in India. Although the relationship between the branch manager and loan officer is built on mutual trust, this relationship is influenced by many organisational, behavioural and social factors. Since the branch operates in an organisational context, the nature of decisions taken by them is guided by the economic environment in which they operate. A bank is a commercial organisation, the relationship between the branch manager and loan officer can be characterised as a commercial relationship.

In certain types of commercial relationships, trust is a significant behavioural factor that can impact significantly on the nature and development of relationship and its effectiveness in achieving the desired outcomes for both parties. There is evidence in the literature to suggest that trust enhances business performance and competitiveness in business organisations. According to Sako (1998, p.8), “trust is of great relevance today because trust enhances business performance. The maintenance of high quality, which is an important source of competitiveness, is easier in high trust production system than in a low trust production system.” The issue of trust is considered particularly important in an emerging economy like India as firms in emerging economies are not in a position to emulate an institutional framework which regulates business relationships as in developed economies. Thus, according to Humphreys (1998, p. 236) “Indian firms must look behind the recipes and imaginatively recreate what they find so that it works in a very different environment. This recreation must consider not only the end point of the journey towards the increased trust, but also the stages through which trust relationships must pass as they are constructed.” Humphrey’s arguments state that Indian businesses operate in an environment where trust is an important element of business relationship. This trust helps in creating value, improve competitiveness and develop relationships between individuals and organisations.

Trust tends to be a significant behavioural factor in relationships that are characterised by an organisation, delegation, risk and dependence. Sydow (1998, p.38) has demonstrated the importance of trust in organisations. “Trust is a social phenomenon which makes work easier within organisations and collaboration among organisations possible. Specifically in a world of increasing uncertainty and complexities, flat hierarchies, more participative management styles and increased professionalisms, trust is thought to be a more appropriate mechanism for controlling

organisational life than hierarchical power or direct surveillance.” Trust not only makes organisational relationships easier but also presents many economic advantages to organisations. Trust can help in number of ways within an organisational context. It provides an alternative control mechanism complementing market prices and hierarchical authority (Bradach and Eccles, 1989), provides a substitute for weak legal remedies (Sitkin and Roth, 1993), and increases efficiency and reduces organisational costs (Sako, 1992).

The significance of trust in situations involving delegation of authority from supervisor to subordinate is emphasised by Huling (2002, p. 136). According to Huling “successful teamwork comes from working through other people and empowering people. Effective delegation begins with ‘TRUST’. The acronym trust stands for Training, Respect, Understanding and Teamwork”. Trust is also very useful in situations when parties engage in relationships that involve risk taking. Humphreys emphasises the need to trust in situations that involve risk taking in economic transactions. “The question of trust arises from the elements of risk in economic situations. Under perfect competition, economic exchanges do not involve risks. Agents can assume that contracts will be honoured and risk is ruled out by candid rationality and perfect information. When this assumption is abandoned, the question of risk and trust arises”, Humphreys (1998, p.217). In situations involving dependence of one individual or organisation on another, a trusting relationship contributes significantly in developing a balanced relationship. Dependence contributes to the constitution of trust within inter-organisational networks. (Sydow, 1998, p.50)

Certain types of organisational structures and cultural environments can enhance the role that trust plays in organisational relationships. One such organisational context

is the banking system of India, in particular the relationship between the branch manager and loan officer in the branches.

This chapter examines the organisational context of the banking system in India as necessary background for understanding those organisational, structural and management factors that make trust a significant behavioural aspect in the particular relationship examined in this thesis – the relationship between the branch manager and the loan officer of extensive branch banking structure that typifies the government controlled banking sector of India.

In this chapter the operational and regulatory structure of the Indian banking system is discussed so that the environment in which the branch manager and loan officers of Indian banks operate can be understood. This understanding of the banking environment will help in determining the organisational, business and regulatory constraints that influence the trusting relationship between the branch manager and loan officer of bank branches. Indian banks currently face many challenges in their operating environment. According to Leeladhar (2005) “Government and Reserve Bank of India measures to open up India’s banking sector to international investors will increase competition for Indian Banks. Along with the pressure of competition, the Government has placed renewed emphasis on the social sector together with thrust on rural and agricultural lending.” The Government’s policy has the potential to increase competitive pressures on banks and pressure to meet the government’s guidelines on social banking. Banks are consequently going to face conflicting challenges of managing funds in an efficient way measured against the needs of customers for social banking.

Indian markets have been liberalised since 1992 and the integration of domestic markets with international markets will mean that Indian banks will have to cope with the challenges and risks of globalisation whilst also needing to adopt transparent,

prudential, regulatory, supervisory, technological and institutional frameworks in the financial sector along with the push to carry out the social banking policies of the Government. According to Shephard and Tuchinsky, (1996), relations between people have become loose and behaviours are difficult to monitor due to process of globalisation, flexibility of labour relations and continuous changes in organisational forms. Firms can no longer rely on hierarchical relationships between people. Instead lateral relationship will be important in work relationship. New linkages between firms are being formed that require organisations to move towards network forms and alliances (Lewicki and Bunker, 1996). Organisational performance will depend on the cooperative behaviour and less on hierarchy (Kramer, 1996). Trustful relations between organisational members can promote voluntary cooperation and extra role behaviour. Conditions of change increase the relevance of trust to organisations and to the wellbeing of the organisations (Mishra, 1996). For Indian banks experiencing the pressures of globalisations and the government's social banking policy, trust between organisation members will help in meeting the challenges of conflicting pressures and challenges in economic and business environment.

This chapter also show that the form of organisation and structure within the banking system in India is such that along with the cultural factors, it heightens the role of trust in determining the nature, development and effectiveness of many of the commercial relationship within the system. This organisational context and the extensive nature of branch banking in India makes the Indian banking system, in general, and branch banking, in particular an appropriate context for the examination of trust. In relation to the particular relationship of branch manager and loan officer, we will try to understand the role that trust theory may play in analysing the dynamics of the relationship. In this chapter, we will try to locate the relationship of branch manager

and loan officer within an organisational context and the organisational culture of the banking system. The understanding of organisational characteristics and culture is considered necessary to understand how the organisation has evolved into its present form, to identify and discuss the factors that have been significant in the development of organisational structure and that impact on this relationship and to indicate the ways in which trust theory may help us to understand the dynamics of the relationships within a particular organisational setting, in particular its structure, culture and hierarchy of relationships.

This chapter starts by giving an overview of the general organisational features of the banking system in India as determined, controlled and monitored by Reserve bank of India. In particular, we will emphasise these features of the organisational context that make trust a significant behavioural factor in the effectiveness of many of the delegated relationships within that organisation. This chapter provides explanations as to why trust will play a significant behavioural role in the health, development and effectiveness of many commercial relationships within the organisation form and structure of Indian banking system. This chapter is divided into the following parts

- Historical context of Indian banking;
- Organisational structure of Indian banking system;
- Banking Policies which affect risk for Indian banks;
- Lending Policy; and
- Performance of Indian banks.

2.2 Historical Context of Indian Banks

In this section, the phases of historical development of Indian banking and its major characteristics dominating those phases are discussed. Through this discussion, we intend to identify the main characteristics of each phase imparts to the present

structure of the organisation, to identify the factors which drove developments in India banking to see whether they are still impacting on the Indian banking system and to show the evolution of the banking sector to its present form in relation to the particular function and relationship that we are describing.

The history of Indian banks can be divided into three distinct phases. According to Kannan (2007), the first phase starts from 1786 to 1955. The second phase starts from 1955 when the banks were nationalised to 1992, when the banking sector reforms started. The Third phase of Indian banking starts from 1992 with the introduction of financial and banking sector reforms after 1991.

2.2.1 Early Phase

The first phase of Indian banking system started from 1786 with the establishment of first joint stock bank in India. This phase can be divided into two stages. The first stage is from 1786 to 1947 when India became independent from Britain and the second stage starts from 1947 to 1955.

The first stage of early phase (1786 to 1947) is characterised by the development of a basic structure of Indian banks. The first bank based on English joint stock company model was established in 1786. Subsequently the British legal and functional model was introduced to India through the establishment of a regulator in 1935 – Reserve Bank of India. The banking structure although modelled on the British joint stock company, also had the characteristics of joint Hindu Family culture. The banks established in the first stage were mostly under community and regional set up which served only a select class of people in a specific region of India. Banks followed a sectarian interest in their lending policies lending only to conventional traders and wholesale businesses. Banks had clusters in certain parts of the country and a large number of people were not using the banks. The ethnicity and culture of various parts of

India played a major role in the development of various banks during the first stage of early phase from 1786 to 1947.

The second stage of the early phase started after independence (from 1947 to 1955). The independence of India from British colonial rule was a watershed event. The Government of India took control of the supervision and regulation of banks by enacting the Banking Regulation Act in 1949 and giving the authority of supervision and regulation of banks to Reserve Bank of India. This regulation was necessitated by the fact that Indian banking saw many bank failures and slow growth. According to Kannan (2007) as many as 1100 banks failed in India between 1913 and 1948 and the trust of people in the banks was very limited. As part of its regulatory action, the Reserve Bank of India imposed a policy of Selective Credit Control on banks which placed restriction on loans against commodities such as rice, wheat, pulses, oilseeds etc. The purpose was to reduce bank finance to traders in commodities who indulged in speculative activities of buying and selling commodities. Through the policy of Selective Credit Control, the Reserve Bank of India played a direct role in channelling credit to preferred sectors of economy. This policy of directed credit has remained in force till today although its form has changed. The policy of directed credit has created many challenges for bank functionaries such branch managers and loan officers who were made accountable for implementing these policies of Reserve Bank through the vast network of branches created after nationalisation of banks. (Kannan, 2007).

In the early phase of banking (from 1786 to 1955), banks in India put in place basic organisational, functional and policy aspects of the loan and credit structure. Prior to that banking in India was in the hands of unorganised money lenders known as “mahajans” who charged usurious interest rates on loans. The banking system in India experienced an organisational input into the lending. Credit was extended through bank

branches managed by branch managers, who were made responsible for decisions regarding bank loans. Branch managers were given the authority to decide who they could lend to, the size, conditions and policy of the loans. Within their delegated authority the branch managers exercised their discretion based on the lending policy of the bank. The early phase laid the groundwork for organisational aspects of banking in India, based on the British model of banking.

2.2.2 Second Phase

The second phase started from 1955 and continued till 1992. This phase is characterised by nationalisation of banks by the Government of India. By nationalising a number of banks the Government achieved the ownership and controlling interest in the banks. The nationalisation of banks was implemented in three stages.

The first stage of nationalisation was first implemented in 1955 when Imperial Bank of India was nationalised and renamed State bank of India. Although the stated objective of nationalisation as given by then Government was “extension of banking facilities on a large scale, more particularly in the rural and semi-urban areas and for diverse, other public purposes”, the real objective of nationalisation was to implement greater regulatory control of banks by using the network of bank branches of the State Bank of India to further the policies of the Government. After nationalisation, the State Bank of India was made responsible for handling the banking transactions of Union and State Governments and acted as the agent of Reserve Bank of India in places where the Reserve bank of India did not have branches or offices. Thus the State Bank of India discharged the regulatory functions of the Reserve Bank of India all over India. The State Bank of India was nationalised in response to the recommendation of “the All India Rural Credit Survey Committee Report, 1954” which was established to suggest measures for developing a rural credit cooperative movement. As a banker to the

Government, the State Bank of India was obliged to open branches in non-urban centres even when these branches were considered unprofitable. The Government subsidised State bank of India for operating these unprofitable branches. Thus the historical beginning of the policy of nationalisation paved the way to a strategy of geographical expansion of banks, which increased risk for branch managers and loan officers of bank branches. The first stage of nationalisation opened the door towards a policy of social banking, which resulted in subsequent nationalisation of banks in the second stage and six more banks in the third stage (Sundharam, 2000).

The second stage of nationalisation was implemented in 1969 when the Government of Mrs Indira Gandhi pursued the policy of social banking in order to generate support within the electorate to win an election. As a result in 1969, 14 banks with a deposit of Rs 50 Crore and over were nationalised by the government in pursuance of its policy of social banking. Six more banks were nationalised and brought under government control in 1980 bringing 80% of the banking system under government ownership. After nationalisation of banks, the government pursued a policy of functional and geographical expansion of banks. The government, according to Roland (2006, p. 8), forced the banks into “channelling of credit in line with the priorities of the government policy on credit.” The government put in place a credit policy requiring banks to lend 40% of their credit to priority sectors of economy as determined by the government. The bank branches were given specific targets of lending to be achieved on the basis of government guidelines. The functional expansion in the area of credit was followed by geographical expansion of bank branches. The policy of nationalisation saw the unprecedented growth of banking industry in India, particularly of nationalised banks. According to Kannan (2007), in 28 years of nationalisation, the branches of public sector banks rose from 7219 to 57000 till 1993,

and credit rose by 9000% to Rs. 2765 billion. It is estimated by Kannan (2007) that by 1993 the business volume per employee went up after nationalisation from Rs 250,000 in 1969 to Rs 4,780,000 in 1993. 35,000 new rural branches were opened till 1993 and after nationalisation exclusively in rural areas. In 1975, the government created Regional Rural banks to assist the nationalised banks with provision of credit to the rural segment of the population.

In addition to nationalisation of major banks the government introduced the scheme of Deposit Insurance in 1961 to give a sense of security to depositors particularly small depositors and of Credit Guarantee in 1971 to induce banks to provide more credit. The purpose of geographical and functional expansion was to enable the government to obtain the support and influence in the population for its policies of social banking and priority sector lending. The banks became a willing instrument of the execution of the populist policies of the government. The geographical and functional expansion of banks was not without its consequences. The expansion of bank branches at such a large scale and the corresponding increase in deposit and lending created enormous risk for bank branches in India. Some of these branches became unprofitable and operating them became risky for banks. Because the government followed an expansionist policy for banking sector, it ignored the risk management and prudential norms for banks. The profitability of some banks was seriously impaired due to the accumulation of non-performing loans. This resulted in erosion of capital for some banks. The bank functionaries – branch managers and loan officers were subjected to pressure in order to deliver on the Government targets for growth in priority sector lending. (Sundharam, 2000 and Kannan, 2007).

The second phase of banking was dominated by nationalisation of banks and government ownership of banking in India. This phase demonstrated that banks are not

only economic organisations that can help in the economic development of country but they are vulnerable to be used as political and social instruments that serve the purpose of a determined government. Through the furtherance of its social policies the government used banks to obtain political support. The government's intervention however created many management problems for the banks, with banks in India facing an erosion of profits and capital together with accumulated non-performing assets. This phase also demonstrates the importance of two main functionaries in the lending management of banks - branch manager and loan officer, who were made accountable for functional expansion of lending at the branch level. Without their efforts, the lending performance of bank branches on policies of priority sector loans would not have been achieved. In this phase the credit structure of banks and the role of various organisations in India became formalised and institutionalised.

2.2.3 Third Phase

The third phase of Indian banking started in 1992. This phase is characterised by consolidation of the banking system. The policies on nationalisation of banks, the geographical and functional expansion of banks pursued by the government after nationalisation resulted in inefficiencies in the Indian banking system. According to Roland (2006, p.9) "the policies that were supposed to promote a more equal distribution of funds also led to inefficiencies in the Indian Banking System'. At the time of introduction of reforms Indian banking Sector was unprofitable and having structural problems. In the second half of 1980s, the average return on assets was about 0.15%, the capital and reserves were at 1.5% of assets.

In order to arrest further deterioration in the performance on banks, in 1991 the Government of India commissioned an enquiry by the name of Narasimhan Committee to suggest banking sector reforms in India. Based on the recommendation of

Narasimhan Committee, the government carried out the first stage of banking reforms in 1992 and another stage from 1998 onwards. The state owned banks were consequently given more autonomy towards management of banks. The reform in autonomy covered liberalisation of interest rates, easing of directed credit rules, stabilisation of banks, partial privatization of state owned banks, changes in the institutional framework and entry deregulation of foreign banks and domestic banks. The purpose of these reforms was to orient Indian banks towards market situation. (Khan, 2004)

The Government of India, as a part of the reform process adopted some policies which helped the banks in improving their profitability in order to orient banks towards improved market conduct. At the same time the government retracted on some policies which were considered to be politically expedient. For example, the Reserve Bank decreased the cash reserve ratio for banks to 3% and the statutory liquidity ratio to 25% in 1997. The reduction in these ratios meant that banks would have more funds at their disposal which they could lend in profitable projects and earn market rate of interest on lending the surplus funds. This helped the banks in improving their profitability. Similarly, in order to improve the capital adequacy of banks, the Government of India injected capital of Rs 40 billion during 1991-93 and Rs. 120 billion 1993-1998 in order to improve the solvency of the banks, which was marred by the erosion of capital base due to the accumulation of non-performing assets incurred in the second phase.

The Government of India however retracted on the major recommendations of Narasimhan Committee to privatise the state-owned banks because it was not considered politically expedient. Instead the government permitted partial privatisation of some nationalised banks such as the State Bank of India where private investors were allowed to hold capital. The government still holds the controlling interests in these banks although the private investors are allowed to hold capital in the state controlled

banks. The maximum private holding in the State owned banks is limited to 49% of the total capital. The government still maintains administrative control of state owned banks, by owning the majority of shares in these banks and also holds functional control of banks and pursues its policies of social banking through these banks. Cosmetic changes to the management of banks by way of introduction of prudential norms and supervisory framework, guidelines on managing risk and capital adequacy, policies on transparency and accountability have been introduced by Reserve Bank of India which gives the illusion of improvement in the functioning of banks.

The pace of reforms in the banking sector in India has been very slow and half-hearted. Although the third phase of banking in India has been characterised by reforms which would improve the market performance of state-owned banks, the implementation of these reforms have contributed to pressure on the banks to meet the competition from private-owned banks and foreign banks, improve their profitability and capital base. At the same time, banks are forced to follow the priority sector norms and directed lending policies which contribute to the erosion of profitability and capital. The government has not given up the administrative control of the banks. It still appoints its own nominees on to bank's boards and these nominees help the government in pursuing the policies of social banking. Because of the desire of the government to retain control of banks, the level of challenges for State owned banks have not reduced in any way.

The third phase represents realisation by the government of India that banks cannot function unless they adopt basic market requirements of remaining viable and financially responsible. It was this recognition of the principle of market performance of banks that forced the government to retreat from further pursuing its social banking policies. However, this recognition of market performance of the bank is still not fully

appreciated as the government has retracted on ownership status of the bank and also continues to pursue the policies of priority sector lending which were responsible for the accumulation of non-performing assets of the bank. The role of bank branch and in particular the role of branch manager and loan officer has become more critical in this phase because they have been made accountable not only for the implementation of social banking policies on priority sector lending but also made accountable to deliver the profits and arrest the erosion of the bank's capital. These conflicting demands on the functions of branch managers and loan officers create the need for trust between the two most important players at the branch level.

2.3 Structure of Indian Banking System

In this section the structure and organisation of banks in India is discussed to determine the business environment in which branch manager and loan officer operate. The study of structure of Indian banks is important for the relationship between branch manager and loan officer because the structure of banks determine the type of challenges the branch manager and loan officer face in their relationship. The structure is important in determining the external factors that impact on the relationship between branch manager and loan officer. Both loan officer and branch manager are a part of this structure and their place in the structure determine their inter-personal relationship at the branch level. Both of these functionaries have to observe the rules and regulations, traditions and mechanisms that determine their working relationship in the banking organisation. They are a part of hierarchy and since this hierarchy is determined and controlled by the government as an owner, the structure and organisation of this hierarchy becomes important in the relationship between branch manager and loan officer. The study of the structure helps in determining and understanding the influences

to which the branch manager and loan officer are subjected in their day to day lending activities.

The structure of Indian banking system is illustrated in Fig. 2.1. The banking system of India can be classified into organized sector and unorganised sector. The organized sector consists of the commercial banks, cooperative banks, regional rural banks and development banks. The unorganised sector consists of money lenders, chit funds, pawn brokers and indigenous bankers. The organised sector comes under the purview of Reserve Bank of India and Government of India, while the unorganised sector is beyond the control of these regulatory and government authorities.

2.3.1 Reserve Bank of India

The Reserve Bank of India is the central bank of India. The Reserve Bank of India supervises, controls and regulates activities of commercial banks and other financial institution. The Reserve bank also undertakes a number of promotional and development functions. The Reserve bank derives its authority from Banking Regulation Act, 1949 and Reserve Bank of India Act 1934. The Reserve bank performs the following main functions in India

- Bank of Currency Issue;
- Banker, agent and advisor to the Government of India;
- Custodian of cash reserves of commercial banks;
- Custodian of foreign currency balances of India;
- Lender of last resort;
- Controller of credit; and
- Clearance, settlement and transfer of funds;

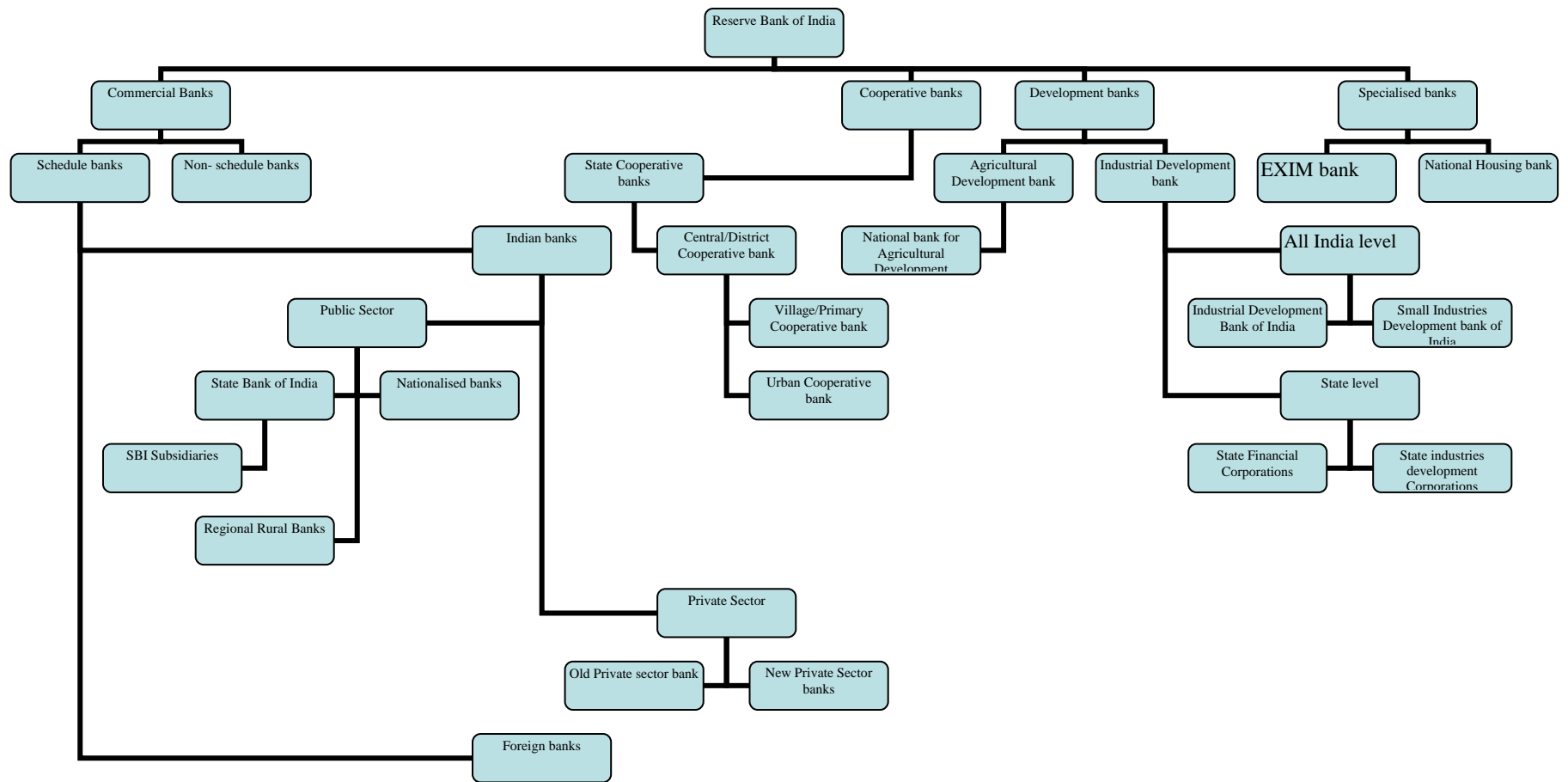


Fig. 2.1: The structure of Indian banking System

These functions are facilitated by Reserve bank of India in a number of ways such as

- Setting the bank rate policy;
- Participation in open market operations;
- Setting the cash reserve ratio and statutory liquidity ratio; and
- Selective credit controls.

In all these functions the Reserve bank of India as Controller of Credit determines the credit policy of banks. This credit policy directly influences the environment of lending in which the bank officials such as branch managers and loan officers operate. Further the Reserve Bank monitors the credit performance of each and every bank in terms of the policy laid down. This monitoring of credit has a direct impact on the performance of all those involved in credit functions including branch managers and loan officers.

2.3.2 Commercial Banks

Commercial banks in India were modelled on the structure of British banks at the beginning of 19th century. The British had an interest in establishing banking system in India based on Western model because the British needed commercial banks to support their business activities in India. The banks were started, funded and managed by industrialists and business so that these business houses could obtain adequate finance from the public for their businesses and industries. The Tata Group was associated with the Central Bank of India, the Birla group was associated with United Commercial Bank and the Indian Bank was established by Chettiars. Most of the bank branches and activities were concentrated in cities. The vast majority of the population was served by the unorganized sector dominated by indigenous bankers and money-lenders.

The commercial banks in India are classified into scheduled and non-scheduled banks. A scheduled bank is the one which is included in the Second Schedule of Section 2(e) of the *Reserve Bank of India Act*. Section 42(6) of the Reserve Bank of India further defined a scheduled bank as one which carries the business of banking in India, has a paid up capital and reserved fixed by Reserve Bank of India from time to time. It can be a State Cooperative bank, a company defined in *Companies Act (1956)*, an institution defined by Central government of India for the purpose of carrying business of banking. Further a bank has to satisfy the Reserve Bank of India that its affairs are not conducted to the detriment of public interest.

A non-scheduled bank is a bank whose name does not appear on the Second Schedule of Section 2(e) of *Reserve Bank of India Act*. Non-schedule banks usually have lesser paid up capital and reserve than prescribed by Reserve Bank of India. Non-scheduled banks also carry on the business of banking as per guidelines laid down by Reserve Bank of India.

The scheduled banks may be further grouped into Indian scheduled banks and foreign owned scheduled banks. Indian scheduled banks are registered in India as commercial banks. Foreign banks are incorporated outside India. Foreign banks are mostly concentrated in four metropolitan centres of Delhi, Mumbai, Calcutta and Chennai. The Government of India imposed a ban on opening of foreign banks in India in 1969, when fourteen major banks were nationalized. In 1980 the ban on opening of foreign banks was relaxed when the government liberalized its banking policy.

Section 42 of *Reserve Bank of India Act* stipulates that the scheduled banks should maintain cash reserve with Reserve bank of India and also maintain statutory liquidity ratio of their deposits in securities prescribed by the Reserve Bank. The scheduled banks also participate in Deposit Insurance Scheme, Credit Guarantee Fund

and Refinance facilities given by development banks. The Reserve Bank also provides funds to banks by rediscounting approved trade and commercial banks. The Reserve Bank also acts as a lender of last resort for commercial banks.

The Indian scheduled banks can be further classified into public sector banks and private sector banks. Due to their nature of ownership, the public sector banks have to follow the policies as laid down by the government in regard to interest rate, deposits, lending and other banking activities. This exposes the management of the banks to influence peddling by politicians and public officials. Some of these public officials sit on the board of directors of the public sector banks and influence decisions on loans, policies and personnel. Although private sector banks are free from such influences, they are also not able to participate in large projects because of their limited resources and small size.

2.3.2.1 Public Sector Banks

The public sector banks consist of State Bank of India, its subsidiary banks and twenty nationalized banks. The State Bank of India is the largest commercial bank in India and established in 1955. In July 1969, fourteen private sector banks with deposits of Rs fifty crores and more were nationalised. In 1980 another six banks whose demand and time liabilities exceeded Rs. 200 Crores were also nationalised. The nationalisation of banks have resulted in wider geographical expansion of banking services, deeper penetration of banks in rural areas and reallocation of bank credit to priority sectors of economy. Nationalisation has also resulted in a large increase in bad and doubtful advances.

2.3.3.2 State Bank of India.

The State Bank of India was established in 1955 after the nationalization of Imperial Bank of India. The State Bank of India was established with the specific

purpose of developing banking services in rural areas. The State Bank of India has opened a large number of branches in rural and semi-urban areas, where there were no bank branches previously. The State Bank of India acts as an agent of the Reserve Bank of India in places where Reserve Bank does not have a branch. It helps in clearing and settlements of payments, acts as banker to banks and governments and provides large fund transfer facilities. The State Bank of India (SBI) with about 8700 branches is the largest bank in India. SBI has helped in financing credit for rural and industrial activities. It finances small scale industries and cooperative sector organizations. The State Bank of India has launched a number of innovative products such as Village Adoption Scheme and Entrepreneurship Development Scheme. (SBI, 2009)

2.3.3 Regional Rural Banks

The *Regional Rural Bank Act, 1976* empowers the Central Government of India to start regional rural banks where it considers expedient to do so. The regional rural banks are set up to supplement the activities of cooperative and commercial banks in the rural areas by providing credit to agriculture and industrial sector in rural areas. Every regional bank is expected to cover a population of 10 million served through a network of 100 branches. The regional rural banks are sponsored by a commercial bank, which also provide them with funds, guidance and managerial skills. The share capital of a regional rural is subscribed by Central Government, State Government and a sponsor bank in the ratio of 50:15:35. The regional rural banks raise their resources through own capital, public deposits, borrowings from sponsoring bank and refinance on loans obtained from National Bank for Agriculture and Rural Development. Regional rural banks are expected to help the development of agriculture, trade, commerce, industry and other productive activities in rural sector. Regional Rural Banks are expected to

replace the indigenous money lenders in rural areas and supplement the activities of cooperative banks.

2.3.4 Cooperative Banks

The cooperative banks were established with the principle of cooperation. Although cooperative banks receive deposits from the public but lend only to their members. The primary objective of the cooperative bank is not profit but to relieve the rural population from the clutches of money lenders who were known to charge exploitative rate of interest. Cooperative Banks facilitate rural credit and promote self help among weaker sections of rural society. They do this by providing short, medium and long term agriculture credit. The cooperative banks have a three tier structure. At the village level, the primary or village cooperative society serves the needs of rural population within a geographical area. At the district level, Central Cooperative Bank functions as a federation of rural cooperative banks. The State Cooperative bank acts as an apex bank at the state level.

2.3.4.1 State Cooperative Banks

Every state has an apex bank which acts as the leader of all cooperative credit institutions in the state. The State Cooperative Bank links the money market and the Reserve Bank of India with the Central Cooperative banks and the Primary Cooperative Societies. The State Cooperative banks are funded through their own capital, loans from Reserve Bank of India, public deposits and deposits from member societies. They lend by way of short term and medium term loans to Central Cooperative Banks.

2.3.4.2 The Central Cooperative Banks

All types of primary cooperative societies in a district are members of the Central Cooperative Bank. This Central Cooperative Bank acts as the federation of the primary cooperative societies. Central Cooperative Banks function as the intermediary

between the State Cooperative Bank and the primary Cooperative Societies. The Central Cooperative banks are funded through share capital, public deposits and loans from State Cooperative Banks. Central Cooperative banks also help the Primary Cooperative Societies in obtaining technical advice, supervisory guidance and administrative assistance. Central Cooperative banks are located at the district headquarters and have branches at the sub-divisional levels. They advance medium and short term loans to primary cooperative societies.

2.3.4.3 Urban Cooperative Banks

The Urban cooperative banks are restricted to lend money to only those members who reside within specified municipal limits. These banks are opened only in urban centres. Urban Cooperative banks receive deposits from members, from the public and give loans to its members. They are also allowed to admit firms and local bodies as their members in addition to individual members. Like commercial banks, Urban Cooperative banks accept demand and time deposits from the general public.

2.3.4.4 Village/Primary Cooperative Society

The primary cooperative credit societies function at the village level with a purpose to promote thrift and self help among rural population. The society obtains deposits from members and non-members and provides credit to small and marginal farmers. A number of these cooperatives have been plagued with mismanagement and in-fighting among members, resulting in bad loans. A number of states in India have undertaken reorganisation and amalgamation of these cooperative societies resulting in liquidation of weak cooperative societies. The objective is to strengthen financially viable and strong cooperative societies while liquidating non-viable and weak societies. Reserve Bank of India, in collaboration with state governments has taken many steps to strengthen the base of these cooperative societies.

2.3.4.5 Land Development Banks

These are special cooperative banks set up to provide long term loans to agriculturists. There are two types of land development banks – primary land development banks and the central land development banks. The primary land development banks grant long term loans at the village and district level. The central land development banks work at the state level. The central land development bank raise their funds through share capital, borrowings from cooperative banks, commercial banks, Reserve Bank of India by way of debentures and loans. They also raise money through public offerings. Long term loans are provided by them to primary land development banks. Loans are usually given for land development and cultivation on a long term basis against the security of land.

2.3.5 Development Banks

Development Banks were set up in India to fulfil the credit needs of agriculture and industries. Development banks in India promote investment projects, provide medium and long term loans, provide technical and managerial services and develop project. National Bank for Agricultural and Rural Development (NABARD) is the apex development bank for agriculture whereas Industrial Development Bank of India (IDBI) and Small Industries Development Bank of India (SIDBI) are the apex banks for large and small industries development in India.

2.3.5.1 National Bank for Agriculture and Rural Development

The apex development bank for agriculture is called National bank for Agriculture and Rural Development (NABARD). NABARD was established by an Act of Indian Parliament in July 1982 as a special institution for designing and administering rural development programs, promote handicrafts and other economic activities in rural areas. In addition NABARD has also undertaken agriculture refinance function of Reserve bank of India. This refinance of agriculture loans is administered

through cooperative land development banks, regional rural banks, state cooperative banks and other nationalized and private sector banks approved by Reserve Bank of India. All bank branches lending to small businesses and agriculturists need to follow the guidelines set by NABARD in regard to the terms and conditions of lending.

2.3.5.2 Industrial Development Banks

In India, a number of state corporations and banks act as industrial development banks. These can be classified as:

- Financial Corporations;
- Development Corporations; and
- Investment Corporations.

The main development banks, Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI) and Industrial Finance Corporation of India (IFCI) are the agencies to provide industrial credit at the national level. Industrial Finance Corporation (IFCI) was established in 1948 to provide financial assistance to industries. IFCI grants term loans to industries, underwrites shares and debentures, provide guarantees for deferred payments by industries and also guarantees foreign currency loans. IFCI provides merchant banking and financial services, leasing and supplier's credit etc. to its constituents.

The Industrial Development Bank of India, previously a subsidiary of the Reserve Bank of India - is the principal financial institution for provision of credit to industries. In addition to providing long term credit, IDBI provides indirect financial assistance to industries by underwriting shares and debentures, granting soft loans for modernization and diversification. At the state level, the industrial development and lending functions of IDBI and IFCI are administered by State Financial Corporations. The State Financial Corporations are owned by respective state governments, Central

Government, Reserve Bank and participating scheduled commercial banks, and cooperative banks. State Financial Corporations can raise additional funds by issue of bonds and debentures, receive public deposits, and generate funds from IDBI by way of refinance on loans and borrowings from Reserve Bank of India. State Financial Corporations grant loans to industries, guarantee loans to industries, underwrite shares and debenture issues.

Every state in India has set up a State Industrial Development Corporation (SIDC) for the purpose of industrial development in the state. These State Industrial Development Corporations act as catalysts of industrial development in the state. The SIDCs provide finance to industries in the state, conduct project identification, conduct techno-economic feasibility study, select and train prospective and current entrepreneurs. In this way they help in promoting industrial development.

2.3.5.2.1 Small Industries Development Bank of India

The Small Industries Development Bank of India (SIDBI) was established in April 1990 under an Act of Indian Parliament as a wholly-owned subsidiary of the Industrial Development Bank of India. SIDBI's statute provides that it should serve as the principal financial institution for promotion, financing and development of industry in the small scale sector and co-ordinating the functions of other institutions engaged in similar activities. SIDBI became operational on April 2, 1990. The Small Scale Industry (SSI) sector, which is a vibrant and dynamic sub-sector of the India's industrial economy, comprises the area of SIDBI's business. The contribution of the SSIs in terms of production, employment and export earnings has been significant. The objectives of Government policy have been to impart vitality and growth impetus to the sector by removing bottlenecks that affect the growth potential of SSIs in India. In the liberalised

era and emerging economic scenario, the sector is assured of continued support. One of the important mechanisms through which SIDBI helps SSIs in India is through refinance of loans granted to SSIs by banks. SIDBI refinances loans granted by Primary Lending Institutions such as banks for new SSI projects and for expansion, technology upgrade, modernisation, quality promotion. Loans sanctioned by banks to small road transport operators, qualified professionals for self-employment, small hospitals and nursing homes and to promote hotels and tourism-related activities also qualify for refinance from SIDBI. (Prasad and Chandradoss, 2002).

In addition to refinancing of loans granted by Primary Lending Institutions, SIDBI directly finances SSI units for new/expansion/diversification/modernisation projects, marketing development projects which expand the domestic and international marketability of SSI products, existing well-run SSI units and ancillaries/sub-contracting units/ vendor units for modernisation and technology upgradation, infrastructure development agencies for developing industrial areas. SIDBI also lend to leasing and hire purchase companies for offering leasing/hire purchase facilities to SSI units. SIDBI provides foreign currency loans to import equipment by existing export-oriented SSIs and new units having definite plans for entering export markets, execute confirmed export orders by way of pre-shipment credit/letter of credit and provides post-shipment facilities. SIDBI's venture capital fund provides assistance to small scale entrepreneurs using innovative indigenous technology and expertise. Lines of credit are established by SIDBI in favour of State Financial Corporations, State Small Industries Development Corporations for supplying raw material and extending marketing support to SSI units, Factoring Companies to factor receivables of SSIs, commercial banks to cover their pre-shipment credit in foreign currency of SSI exporters, Merchant Banks for supporting equity issues of SSIs on over the counter exchange of India.

2.3.6 Export- Import Bank of India

The Export Import bank of India (EXIM) is a statutory financial corporation and provides financial assistance to exports and imports. The EXIM bank was established for the purpose of financing foreign trade in India. The EXIM bank is engaged in planning, promoting and financing exports in goods. It also helps in financing exports or imports of machinery on lease, grants loans or advances for joint ventures in foreign countries, coordinates the working of institutions engaged in foreign trade and provides refinance facilities to commercial banks by discounting their export bills. The EXIM bank lends money to commercial banks by rediscounting bills up to 90 days and gives guarantees in foreign currencies for Indian exporters who deal in construction and turnkey projects. The EXIM bank is an important source of money to banks, engaged in export and import credit through its refinance schemes (Prasad and Chandradoss, 2002)

2.3.7 Credit Guarantee Fund

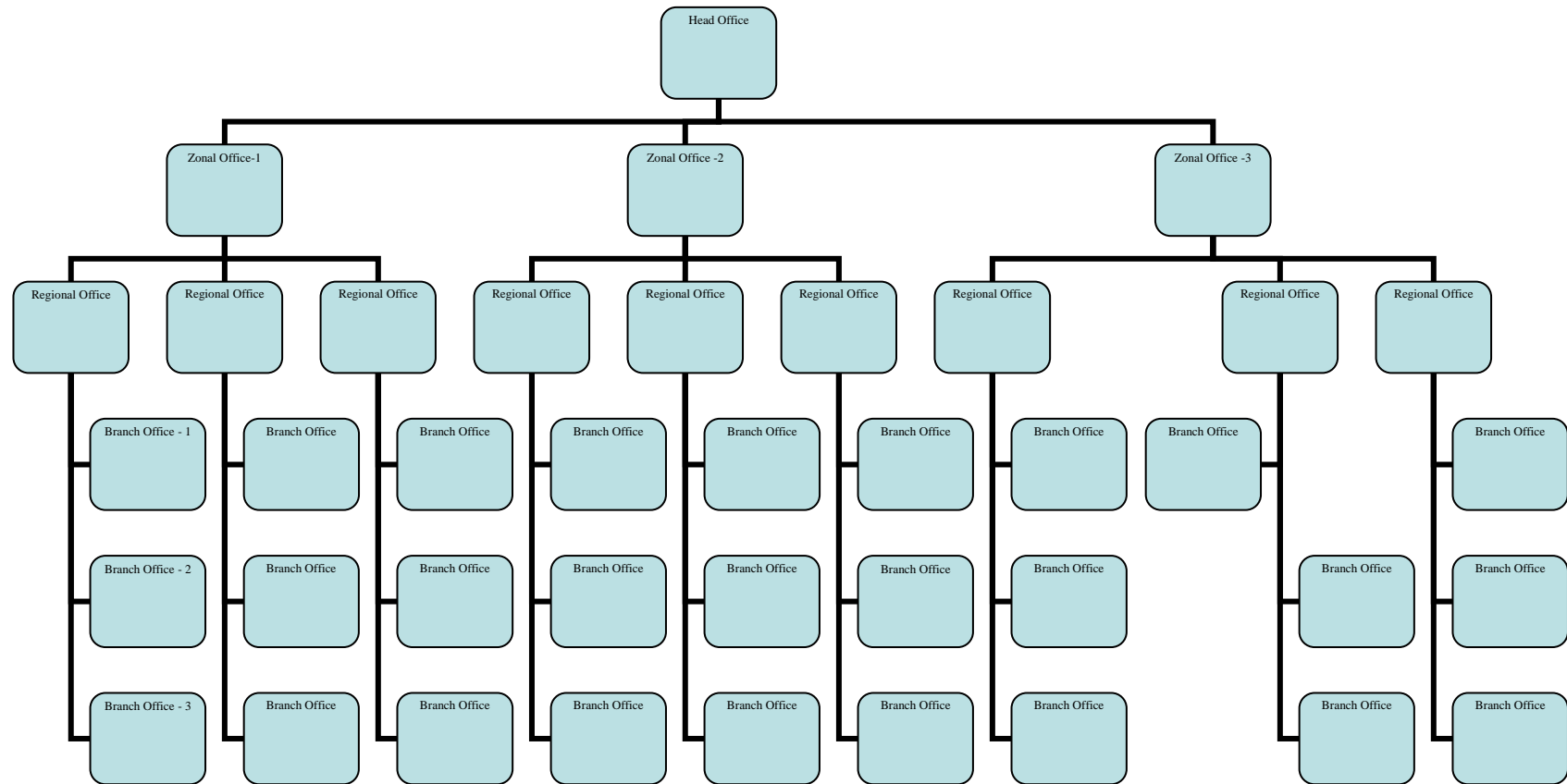
The Government of India launched the Credit Guarantee Fund for Small Industries in 2000 with a view to reduce the problems of collateral security/third party guarantee and with a view to facilitate the flow of credit to small scale industries in India. This particular scheme operates through the commercial banks.. Any collateral free credit facility granted by a commercial bank to an existing manufacturing small scale industry is eligible for the guarantee cover up to Rs 2.5 million under the scheme. The guarantee cover is up to 75% of the loans extended by lending bank or institutions. The other restriction is in regard to rate of loan charged by the bank which can be up to 3% over the prime lending rate of the bank. The guarantee cover starts from the date of payment of guarantee fee by the lending institution to Credit Guarantee Fund and remains in force for up to 5 years. The loans are to be allowed by the lending institutions based on the guidelines issue by the Fund. In case of default, the loan

facility needs to be recalled and recovery proceedings are to be initiated by the lending bank against the borrower. The Credit Guarantee Fund pays 75% of the guaranteed amount of eligible claim by the lending institution within 30 days of the claim and the balance 25 per cent of the amount is paid on the conclusion of the recovery proceedings against the borrower by the lending institutions. (CGMSE, 2009)

2.4 Organisation of banks and branches

Banks in India are organised in a hierarchical organisation structure. Fig. 2.2 illustrates the structure of a typical Indian bank. The Head office of the bank operates through zonal offices. Zonal office, usually headed by a zonal manager, is accountable to head office for the operational performance of all the regions under its control. The policies and guidelines laid down by head office are administered by zonal offices for all the branches and regions under its control. These policies relate to the entire functioning of the banks such as credit, human resources, deposits, development, strategy, growth. Each of the zonal office controls a number of regional offices. These regional offices in turn control branch offices. The regional offices are responsible for the operational performance of the branches under their control.

Fig. 2.3 illustrates the structure of a typical medium sized bank branch in India. The branch is headed by a branch manager who is assisted by an assistant branch manager. The assistant branch manager controls a number of departments in the branch each headed by an assistant manager or officer. The assistant manager operates through assistants or cashiers who work in a specific area of operation. The loans department is usually directly controlled by the Branch manager through loan officer or assistant manager (Loans). The loan officer is usually assisted by one or two



2.2: Structure of a bank (based on the structure of Punjab national bank, <http://www.pnb.org/structure>)

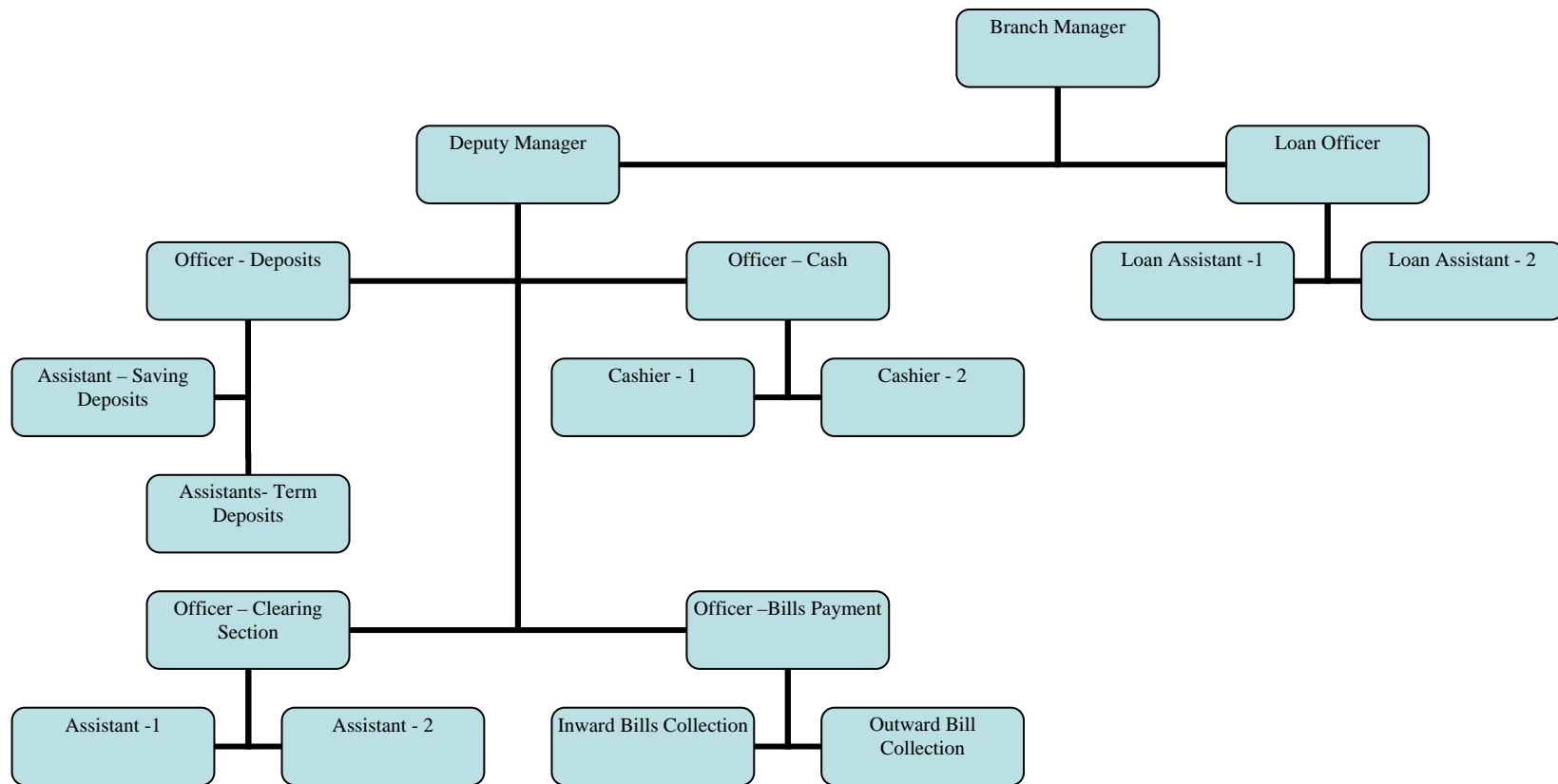


Fig. 2.3: The structure of a typical medium sized bank branch in India

assistants who help in the loan function of the branch. The assistant branch manager is accountable to branch manager for the day to day functioning of the branch and all the departments under his or her charge. The development function and loan functions are usually supervised by the branch manager himself or her self, as branch manager usually has discretionary powers to allow the loans. This structure helps the branch manager in monitoring the loans department easily. The structure of the branch in place creates a special relationship between the branch manager and loan officer as the loan officer is usually directly supervised by the branch manager and is accountable directly to the branch manager for the business organisation of the loan portfolio at the branch level.

There are a number of external influences on the relationship between the branch manager and loan officer in this structure. First, the regional office exercises a lot of influence because the branch manager is accountable to regional manager for the performance of the branch including its lending performance. In addition, zonal office and head office exercise considerable influence on the branches through the policies laid down by head office for the bank. These policies in turn are determined by the government and the Reserve Bank of India. As a part of policies in place and as a part of the organisation, the branch manager and loan officer have to interact with many of these organisations outside the bank such as Industrial Development Bank of India, Small Industries Development Bank of India, National Bank for Agriculture and Rural Development, EXIM Bank of India and Credit Guarantee Fund. The policies set by these development institutions determine how the loan function at the branch operates and is organised by the branch manager and loan officer. This organisation and operation then determines the nature of relationship between the branch manager and

the loan officer. In the next section, the banking and lending policies of the Indian banking System are discussed.

2.5 Banking Policies which affect the risk for Indian banks

2.5.1 Cash Reserve ratio and Statutory Liquidity ratio

After the nationalisation of banks in 1969, the reserve bank of India has used the policy of maintenance of cash reserve ratio (CRR) and statutory liquidity ratio (SLR) as an instrument of establishing liquidity and solvency of the commercial banks and also as an instrument of credit control of banks.

Section 42(1) of *Reserve Bank of India Act 1934* empowers the Reserve Bank of India to direct the commercial banks in India to maintain with RBI an average cash balance of not less than three per cent and not exceeding twenty per cent of their net demand and time liabilities in India in the form of cash. In addition Section 42(1A) of *Reserve Bank of India Act 1934* empowers RBI to direct the commercial banks to maintain an additional balance with RBI in the form of cash. All the banks that keep balance with RBI in the form of cash reserve ratio are paid interest on eligible cash balances. The rate of interest is linked to the bank rate.

Section 24(2-A) of *Reserve Bank of India Act, 1949* empowers the Reserve Bank of India to direct the commercial banks in India to maintain, in addition to the average daily balance of cash reserve Ratio, an amount, in cash, or gold valued at market price or in unencumbered approved securities valued at a price determined by RBI, not less than 25% and not exceeding 40% of the total demand and time liabilities in India. This is known as statutory liquidity ratio (SLR). Failure to maintain the balance of cash

Reserve ratio and Statutory Liquidity Ratio attracts penal interest on daily basis at a rate determined by the Reserve Bank from time to time.

Although the stated purpose of maintenance of minimum cash reserve ratio and statutory liquidity ratios was to ensure the liquidity and solvency of the individual commercial banks and banking system, the real purpose was to provide the central bank with supply of deposits and to influence and restrict the commercial banks expansion of credit. Since the securities specified as approved securities for the purpose of SLR were Government Securities, SLR was used as an instrument to provide the government with the depositors fund from banks. The higher amount of CRR and SLR meant that the banks could not use the money invested in CRR and SLR to extend the volume of credit and earn interest based on the market rate of interest on lending. The bank lost the difference between market rate of interest on lending and the rate paid on CRR and SLR by RBI. The banks consequently suffered a loss of income. Sundharam (2000) describes the limitation of using CRR and SLR as instruments used by central banks to control the credit. In a period of inflation, if the reserve ratio is raised, the banks may satisfy the legal requirements but elect to work with small amount of cash. When the business conditions are good, the banks need high amount of cash to avoid run on them. During a period of recession, the bank may keep excess cash reserve because the investors may not come forward to borrow the cash. In their opinion the quantitative methods of credit control by central banks have generally failed. India is not an exception. From 2003, CRR is reduced to 4.5% of demand and time liabilities and SLR is kept at statutory minimum of 25% although there are times when CRR was close to 10% and SLR close to 38.5%. The increase in CRR and SLR would mean that manager and loan officer would either face a credit crunch at the branch level or would need to look for more deposits in order to fund the credit. (Sundharam, 2000). The CRR was again raised to

4.75% in 2004. The government of India has recently introduced an amendment to *Section 42 of Reserve Bank of India Act* which vests the Reserve Bank with powers to prescribe CRR for scheduled banks without any floor or ceiling limit. This amendment removes the minimum cash reserve ratio and also stops the Reserve Bank from paying any interest on any balances of CRR of banks with Reserve Bank. This amendment will further reduce the income of banks on CRR deposits with the Reserve Bank and would adversely affect the profitability of banks. (RBI, 2008, p.14)

2.5.2 Branch Expansion and Deposit Growth

The expansion of bank deposits following the nationalisation of banks has been an important issue in Indian banking. The banks, in particular the nationalised banks have contributed immensely to the development of banking in India through extensive publicity, expansion of branch network, prompt service to the customers, incentives to the customers. This is evidenced by the growth in deposits and advances since 1970-1971.

From Table 2.1 it is observed that although the number of banks has declined since 1970-71 the deposits and advances of schedule commercial banks have steadily grown significantly. This expansion of the banking system and creation of credit has created considerable risks for banks and branch functionaries. Table 2.2 illustrates the increase in number of branches in the Indian banking system since nationalisation.

The nationalisation of banks in India saw the rapid expansion of branches which has been unprecedented in any part of the world. The massive branch banking has thrown a number of challenges for the bank and branch management. The development banking also widened the scope of business for banks in India. From merely accepting

deposits and the lending of funds, banks after nationalisation started catering to the needs of the industrial and agricultural sectors. The nature of their financing also

Table 2.1: Deposits and credits of all schedule commercial banks

Year	Number of Reporting Banks	Bank Deposits (Rs Crores)	Bank Credits (Rs Crores)
1970-71	73	5,910	4,690
1980-81	165	37,990	25,270
1990-91	271	192,540	116,300
1999-00	299	767,030	389,300
2005-06	218	2,164,477	1,516,577
2007-08	183	3,320,054	2,477,039

Data Source: Reserve Bank of India, Reports on Trends and Progress in Banking, 2005-06 and 2007-08

changed from short term to medium term and long term. After nationalisation, banks were directed to assist small and weak industrial units, small farmers, artisans and neglected group of society. The Government of India adopted the Lead Bank Scheme under which all districts were allocated to one of the nationalised banks.

Table 2.2: Branch Expansion of all commercial banks in India

At the end of the year	Total Number of branches	Population per branch office
1969	8,260	64,000
1991	60,650	14,000
1999	64,980	15,000
2006	69,471	16,000
2008	76,518	15,000

Data Source: Reserve Bank of India, Reports on Trends and Progress in Banking, 2005-06 and 2007-08

The lead bank of the district was asked to actively engage in opening of new branches in the district, provide maximum credit facilities for development in the district allocated and mobilise the saving of the people in the allocated district. The Lead Bank was made responsible for mobilising the resources of all the banks in the district and for initiating projects to improve productivity and creating employment opportunities. Each urban,

semi-urban and rural branch of a commercial bank was asked to adopt certain villages in each district as a part of its service area. The economic growth in the service area was made the responsibility of the bank branch adopting that area. The bank had to coordinate its lending activities in the service area with local government and other government agencies for development purposes. This created added responsibility for banks in addition to their normal banking business (Sundharam, 2000).

2.5.3 Interest rate structure

For a considerable amount of time after nationalisation of banks in 1969, the Reserve Bank of India followed a policy of controlled interest rates on deposits and loans. Following the financial sector reform introduced in the 1990s, the Reserve Bank of India has followed a policy of deregulation of interest rates with the expectation that deregulation will help in improving the competitiveness of banks. According to RBI report on Progress of Banking (2006) all interest rates have been deregulated except the saving bank account, non-resident Indian deposits and small loans up to Rs 2 lacs and export credits. Banks are now free to determine interest rates on term deposits depending on their commercial rates and subject to the approval of their boards. Banks have also been allowed to charge differential rates on wholesale deposits above Rs 15 lacs. The interest rate on saving bank is regulated at 3.5%, although the Reserve Bank recognises the need to deregulate the interest rates on saving bank (RBI, 2009).

Although the interest rates on lending have been progressively deregulated since 1994, the Reserve Bank still maintains regulation of interest rates on lending on a number of borrowers. For example, the lending rates on export credit are regulated as a part of policy of promotion of exports and lending to small business up to Rs 2 lacs is regulated. Further, short term credit to farmers, up to Rs 3 lacs, have a ceiling of 7% per

annum from 2006 onwards. The ceiling of interest on small loans to businesses and small farmers deprive a substantial income to banks as the number of these loans is very large. (RBI, 2008)

2.5.4 Credit Policy

After nationalisation of banks in 1969, the Government of India introduced policy of directed credit. The government used the public sector banks to finance many of its pet projects. The main elements of its credit policy were control and regulation of interest rates on credit, development of priority sector of lending and introduction of a number of so called poverty alleviation program as a part of its social banking policy. This policy of directed credit is considered as necessary by RBI in order to “create a conducive environment for banks to provide adequate credit to all productive sectors at reasonable cost”. (RBI, 2008, p.17)

2.5.5 Priority Sector lending

As a part of its social banking policy, the government introduced financing of priority sector of lending. The banks were asked to lend to the designated sectors of economy such as agriculture, small business and industry, transport operators, retail trades, professionals and self employed, housing loan to weaker section and consumption loans, on a priority basis. As per RBI guidelines, priority sector advances should constitute 40% of aggregate credit, out of which 18% should go to agriculture and 10% to weaker section. In addition a target of 32% of net credit has been stipulate for lending to the priority sector by foreign banks in India. Out of this aggregate credit small scale industries should not be less than 10% and to the export sector not less than 12% of net bank credit.

Direct advances to weaker section in agriculture and allied activities were set at 50 per cent of direct lending to agriculture. Bank credit to rural artisans, village and cottage industries was set at 12.5% of total advances to small scale industries sector. The total credit to agriculture went up from Rs 440 crores in 1969 to Rs 91,300 crores in March 1998. Pursuing the Government policy to double the agricultural credit by June 2007 from June 2004, the Reserve bank took several measures in 2005-06 to increase the agricultural credit by 32% in 2005 and 37% in 2006 and to 44.6% in 2008. The Reserve bank also appointed an Advisory Committee on Flow of Credit to Agricultural and Related Activities from the banking system to examine the problems relating to agricultural credit. Among the recommendation of the committee implemented by Reserve Bank are. 1. waiving margin/security requirements on agricultural loans up to Rs 50000 and in the case of agri-clinics up to Rs 5 lacs; 2. reviewing systems and procedures of banks to make lending cost-effective as well as saving avoidable expenses for borrowers; 3. revising the NPA norms for agricultural finance; 4. posting technical staff at head/controlling offices and changing the mindset of bankers with regard to agricultural lending; and 5. constituting local advisory committees for branches/groups of branches comprising users of banking services as members (RBI, 2008, p.19).

There was also considerable political pressure on banks to lend to priority sectors which resulted in indiscriminate lending by banks. The banks were not able to monitor the distribution, follow-up and recovery of priority sector loans. This resulted in a substantial increase in non-performing assets and affected the profitability of banks. The banks were forced to keep a high proportion of their deposits in liquid reserves such as CRR and SLR and on the other hand, 40 per cent of their loans were directed to priority sector lending, the interest on which was set very low. As a result, the banks

suffered a considerable loss in profitability. The lending to priority sectors still continues. (Sundharam, 2000).

2.5.5.1 Credit Flow to Small and Medium Industries

Credit to small and medium sized industries, is a part of priority sector lending. Because of employment generation capacity of small and medium sized industries the Reserve Bank of India has been making efforts to increase credit to SME sector. The purpose is to increase the employment generation in the country. The banks were directed in 2005 to step up credit to small and medium sized industries. The banks were advised by the RBI to fix targets for financing to SME sector so as to achieve a higher disbursement over the previous year. Sub-targets were allocated for financing tiny and smaller units within the overall targets for SME sector as a whole. The banks were directed to achieve on an average at least five new small/medium enterprises at each of their semi-urban/urban branches per year. Banks were also directed to ensure specialised SME branches in identified clusters/centres with a large population of SMEs so that SMEs can have easy access to credit. The existing specialised branches were also to be redesignated as SME branches. The regional offices of the banks were directed by RBI to review the progress of SME financing and ensure smooth flow of credit to SME sector (RBI, 2007, p.23)

2.5.6 Social Banking

The government used public sector banks to further its pet policy on social banking. Banks credit was used to finance various social schemes of employment generation and poverty alleviation. One of the projects introduced was Differential Rate of Interest Scheme. Under this scheme the public sector banks were asked to give loans at 4 per cent per annum to weaker section of the society who had no tangible assets. The

purpose was to improve the economic conditions of the poor. Under Government compulsion on the banks the lending at the concessional rates went up to Rs 710 crores and 4.3 million accounts by June 1990. It is alleged that nearly 40 per cent of funds lent for poverty alleviation were misappropriated by higher income groups, bank officials, middlemen and politicians and never reached the poor for whom these schemes were intended (Prasad and Chandradoss, 2007).

The other pet project under the social banking innovations was known as Integrated Rural Development program. This program was designed to address the issue of imbalances in rural development and to develop rural masses. According to Sundharam (2000), nearly 2.9 million loans were given out of which 1.9 million loans were given to Scheduled Castes and Schedule tribe borrowers and nearly 0.8 million loans were given to women. The recovery of loans in this particular category was only 12 % initially which subsequently improved to 34%. The consequences of these poverty alleviation programs, was an increase in non-performing assets of the bank and erosion of the capital. The depositors who put their money in government banks also suffered because they were not given adequate interest on their savings.

2.6 Performance of Indian Banks

The performance of the nationalised banks is analysed in terms of their profitability and also in term of the accumulation of non-performing assets. The performance of Indian banks in terms of deposit growth and branch opening is discussed in the Table 2.1 and table 2.2. Indian banks have recorded a substantial growth after nationalisation in deposits and the number of branches. The growth in market size and deposits has not been matched by a growth in profitability of banks.

2.6.1 Profitability of banks

The Reserve Bank of India Report on Trends and Progress of banking gives the profitability of banks in India (Table 2.3). From table 2.3 it is observed that the State Bank Group recorded a steady rise in profits whereas the performance of nationalised banks has been erratic. In fact, nationalised banks have recorded a downward trend in profit in 2005-06 as compared to previous year 2004-05 but improved the same by 2007-08. The reason of decline in the profits of nationalised banks and an stagnation of profit of the State Bank Group which is a part of the public sector banking system can be attributed to the policies of credit pursued by the Government and Reserve Bank. Although the foreign banks also operate in the same environment as the nationalised banks and State Bank Group, the increase in profits of these banks is much higher than the nationalised and State Bank Group. Foreign banks are not subject to same kind of regulations as the government banks are. The social banking policies of the government do not apply to foreign banks in the same way as these apply to public sector banks although some policies on priority sectors have been extended to private sector and foreign banks as well.

Table: 2.3: Profits of Scheduled Commercial Banks (Rs. In Crores)

Banks	1991-92	1998-99	2004-05	2005-06	2007-08
State Bank Group	244	1,466	5,676	5,956	9,006
Nationalised Banks	559	1,792	19,459	10,021	16,856
Private Sector Banks	77	708	3,534	4,985	9,522
Foreign Banks	320	693	1,982	3,069	6,612

Data Source: Reserve Bank of India, Reports on Trends and Progress in Banking, 2005-06 and 2007-08

The Return on Assets measured as net profit to assets ratio declined from 1.1% in 2003 to 0.9% in 2005-06 and increased slightly to 1.0% in 2007-08. The ability of banks to use their funds productively, as measured by spread (Return on Funds – Cost of Funds) is greater among foreign banks at 4.4% as compared to nationalised banks at 2.9%. The return on equity for all banks declined in 2007-08 to 12.5% as compared to

previous years. This decline is attributed to injection of more capital in nationalised banks by the government. The credit deposit ratio of public sector banks increased (from 72.2% to 73.3%) considerably during 2007-08 and C-D ratio of foreign banks increased from 83.2% to 84.38%. The higher ratio of credit to deposit for foreign banks, arise due to the reason that foreign banks are not subject to same CRR and SLR requirements as the nationalised banks. (RBI, 2008).

The major causes of poor profitability of the public sector banks are seen to be in the political and administrative interference and control of the working of public sector banks. The other causes are poor work culture, general indifference to consumer services and strong trade unions which sometimes paralyses the banking industry.

2.6.2 Non- Performing Assets

Non-performing assets are loans on which repayment of principal and interest is not being made on time. Non-performing assets in Indian banking industry posed considerable threat to the sustainability and viability of public sector banks in India. Non-performing assets resulted from the policies pursued of directed credit, social banking by Reserve Bank of India and Government of India in 1970s and 1980s. The problem is severe in nationalized banks, State Bank of India and all India financial institutions. Table 2.4 gives the Gross and Net NPAs.

The reduction in % of gross NPAs to total advances in 2007-08 is due to the increase in total advances and not due to any significant increase in any recovery of NPAs. The gross NPAs have shown an increase from 2005-06 to 2007-08. According to Kannan (2007), commercial banks in India have understated their NPA figures. For example, the banking industry in India underestimated their NPAs in 1997-98 by Rs

3862.10 Crores. The industry is also understood to have underprovided for NPAs to the extent of Rs 1412.29 Crores during that year.

Table 2.4: NPA Statistics – All Scheduled Commercial banks. Amt in Rs. Crores

Year	Total Advances	Gross NPA	% of Gross NPAs to Total Advances
1997-98	352,697	50,815	14.4
1998-99	399,496	58,722	14.7
1999-00	475,113	60,408	12.7
2000-01	558,766	63,883	11.4
2005-06	1,551,491	51,815	3.34
2007-08	2,507,885	56,435	2.25

Data Source: Reserve Bank of India, Reports on Trends and Progress in Banking, 2005-06 and 2007-08.

The international rating agency Standard & Poor estimated NPAs to be between 35% and 70% of its outstanding credit. NPA is the legacy of the banking policies since 1969 during which period prudent banking norms were not followed. Since 1992-93, the government reversed its policies with the introduction of prudential norms for the banking industry together with greater transparency in disclosure norms. Although this policy has reversed the trend in the increase of NPAs, Government's other policies of directed credit specially in regard to the policy of priority sector lending has contributed to the increase in the non- performing assets. The gross NPAs of the banks declined by Rs 7309 Crores during 2005-06 which is being attributed to the recovery rate of advances. The decline in net NPAs was however lower at Rs 3109 crores. According to Reserve Bank, write-offs and write backs of excess provisions were more than the fresh provisions during the year. The decline in percentage of Gross NPAs to Gross advances is attributed to increased recovery of NPAs, decline in gross loans and advances. NPAs

are still high in priority than non-priority sector.

2.7 Implication of structure, policies and performance on lending by branches

The growth, structure, policies and performance of banks have many implications for lending by bank branches in India. These implications create risk for the branch manager and loan officer of bank branches in India as these functionaries try to implement the policies and procedures in an environment determined by the Government's policies and bank structure. The relationship between the branch manager and loan officer and the trust between them is shaped and determined by the way these policies are implemented. The implications of government's policies and their likely effect on branch manager and loan officer relationship are discussed below.

There are a number of achievements of Indian banking System since nationalisation in 1969. The Indian banking system has seen massive branch expansion particularly in rural areas. The volume of deposits particularly in rural areas has increased. The banking system has made considerable penetration into rural areas. Out of a total of 76,000 branches, 30,776 branches are located in rural areas. Along with the number of branches, the number of deposits and credit customers has gone up substantially and the Reserve Bank has put in place measures for enhancing customer service and strengthening the customer grievance handling mechanisms. With the increase in the number of customers and number of branches, the demand for banking services has increased and so also the awareness of banking services. Along with that the government's policies have created increased expectations among the customers.

According to a report published by FICCI (2004), SSI sector customers in India face the following problems in obtaining credit from banks.

- a. Delay in loan sanction and disbursement – The paperwork and formalities required is a big impediment in the obtaining credit. Banks need to address this issue. According to FICCI study, 20% SSIs found that obtaining credit from banks is extremely difficult, 59% of SSIs find it moderately difficult. Only 21% of SSIs find it easy to obtain credit from the banks.
- b. Lack of transparency in sharing information – It is observed that 50% of SSIs whose credit applications were rejected by the banks were not provided reasons for the rejection of the application. Information relating to the credit appraisal of SSIs done by banks is kept confidential. An appropriate feedback from banks to the applicants of rejected applications about performance, rating parameters and reasons for not granting loans will help the small businesses in obtaining credit facilities better.
- c. Inadequate discretionary powers with banks – Powers delegated to branch managers responsible for sanctioning loans to SSIs are observed inadequate. Most decisions are not taken at the branch level and approval takes a lot of time. A greater devolution of authority to branch managers would help in SSIs obtaining decisions on credit applications faster. As the branch managers are generally overworked with responsibilities, loan officers in the specified branches should be made responsible for the loans to SSI units. These loan officers will speed up the process of loans under the discretionary limits delegated to branch managers.
- d. Collateral security arrangements – There are no formal guidelines from the Reserve Bank of India to the banks in regard to the collateral security to be insisted upon by the banks when they want to advance a loan to SSI unit. Different banks have different policies in this regard. Some bank insist on

collateral free limit for the loan up to Rs 5 lacs whereas others insist on a collateral free limit of Rs 15 lacs. In many cases SSI units with good track record of loan repayment have to pledge a collateral security.

- e. Inadequate publicity given to various schemes and facilities provided by banks for SSIs. – Information on various schemes in place such as collateral free and composite loan schemes is not available to majority of the SSI units. Nearly 70% of the SSI units feel that the banks are not giving adequate publicity to various schemes to SSI units. As such SSI units are not able to take advantage of the same. The management of the SSI units have demanded that information on all loan schemes pertaining to the sector be made available to them and the banks should interact regularly with customers by way of mailers and brochures and keep them updated.
- f. Operational issues – A number of operational issues have been suggested in regard to the loan operation of the bank branches. Some of these issues are:
 - i. The frequency of the compounding in relation to the interest charged has been increased from quarterly to monthly. This has the effect of increasing financial burden on these businesses.
 - ii. The processing fee is charged by the banks even on limits not sanctioned. The same needs to be paid with the application.
 - iii. Most of the bank branches do not have forex facilities. This proves to be a burden to the SSI exporters as they receive payment in foreign currency.
 - iv. In computing maximum permissible bank finance, banks give a lot of weight to stocks. This methodology adversely affects those SSI units

which keep minimum stocks through efficient inventory management. These units may have higher outstanding amount of accounts receivable.

- v. It is suggested that the time taken for collection of cheques deposited with the banks takes considerable time. It takes on the average a week for clearance of local cheque and nearly 10 days for the realisation of interstate cheques. The SSI units want that if the delay in collection of cheques takes more than three days then banks should pay interest to the client on the amount outstanding for the time taken in excess of three days.

The increased customer expectations arise because of the government's declared policies which need to be observed by the bank branches. The branch manager and loan officers of the bank branches who are accountable to the government in implementing these policies have to put in place proper strategies at the branches which will address the customer concerns and also satisfy the government's policies.

In addition to customer's concerns as outlined above, the policy initiatives have implication for the credit risk of the lending bank. Some of these initiatives help in reducing the credit risk for the bank whereas other initiatives increase the credit risk for the lending bank. The example of SSI customers is used to illustrate the way in which the government's policy create a risky situation for the branch managers and loan officers of bank branches in India.

1. Priority Sector Lending – Credit to small scale industry is ensured as part of the priority sector lending, banks are required to compulsorily ensure that defined percentage (40%) of overall lending is made to priority sector. SSI sector is

included as one of the groups in the priority sector. 40% of 40% or 16% of total lending is assigned to SSI sector.

By specifying the quantum of credit that a bank has to lend to SSI units, the Government has diluted the norms the bank could use in assessing the quality of credit. The bank working or achieving within these norms will face an increase in its credit risk because the borrowers with low credit rating will also be financed by the bank.

2. Earmarking of credit to sub-sector within overall lending to small scale industries. For example, credit to tiny sector within SSI sector.

Earmarking of credit to sub-sectors within overall SSI sector also has the potential of allowing borrowers with poor credit rating to obtain loans from the bank. This again has the potential of increasing credit risk for the bank.

3. Institutional Arrangement - Small Industries Development Bank was set up to refinance term loans provided by Scheduled banks and SFCs to SSI units.

Refinance of term loans helps bank in obtaining certain percentage of loan granted to SSI borrowers, back from SIDBI. The bank can reinvest this money in other loans and thereby increase its income. As the ultimate responsibility of recovering the credit remains with the bank (and not SIDBI) there is no risk reduction for banks through the SIDBI refinance facility.

4. Loan limits for composite loans and working capital (for example, collateral free loan up to Rs. 10 lacs.

By providing collateral free loans up to Rs.10 lacs to specified borrowers, the bank increases its credit risk as the bank may not be able to recover all or part of the loan in case of default.

5. Launch of Credit Guarantee Fund to cover loans up to Rs. 25 lacs.

The Credit Guarantee Fund (CGF) is established to refund a part of defaulted loan to the bank against fees by the bank. The Credit Guarantee Fund serves as insurance against default by SSI units. In case of default the bank can recover a part of the loan from Credit Guarantee Fund subject to a limit of Rs 25 lacs per borrower. To the extent that the bank obtains its amount in default from CGF, the credit risk of the bank is reduced. But the provision of the Guarantee Fund also induces a moral hazard problem. The availability of CGF reduces the incentive for the bank to assess and monitor its loans properly. Similarly, the borrowers are also inclined to undertake risky business activities because they rely on CGF to pay for the amount in default. As such the combined impact of availability of CGF on risk is difficult to quantify.

6. Launch of credit linked subsidy scheme to provide subsidy against loans taken for specific purposes such as technological upgrade.

The subsidy is provided to the borrower by the government for specified purpose. The subsidy is used to repay a part of the loan amount and paid directly to the bank. This help is reducing the credit risk of the bank. Availability of a subsidy can also result in reducing the quality of credit assessment, which in turn can increase the risk for the bank.

7. Opening of specialised SSI branch

The purpose of opening specialised SSI branches is to provide speedy credit to SSI units. These branches are provided with specialised staff such as engineers who are in a position to evaluate loan applications from SSI units at the branch level itself. These branches also have access to data and other inputs for assessing loan applications as well as monitoring the borrowers. The provision of specialised staff helps in reducing the credit risk for the bank. On the other hand SSI branches receive lending targets from

the head office of the bank and the government in regard to loan levels (number of applications disbursed and rupee amount of the credit). In order to achieve the credit the branches may be forced to dilute their assessment criteria. If the assessment criteria are diluted, this may lead to risky loans, increase in bad debts and increase the credit risk for the bank.

8. Initiation of adequate powers at regional and branch levels. Sensitisation of branch managers towards working of SSI sector.

Initiation of adequate powers at the regional and branch level lead to speedy credit decisions by regional managers and branch managers. This helps in reducing the time and cost of lending, specially the cost of assessing the loan applications and monitoring the borrowers.

Sensitisation of branch managers, in political parlance means putting pressures on the branch managers to conform to the government policies, external administrative and political pressures from government agencies, local politicians and administration. These kind of pressures lead to the dilution of credit norms and consequently increase the credit risk to a bank.

9. A cluster based approach to SSI sector. The purpose was to make available appropriate information for risk management and monitoring of lending institution.

The cluster based approach to lending involves identifying specific clusters of SSI units and providing loans to SSI units in these areas. The clusters are located in areas where the population of SSI units engaged in specific type of activity is large such as hosiery manufacturing in Ludhiana or woollen garments in Amritsar. The advantage of cluster based financing is that specific information about particular units are available easily and other inputs for manufacturing is also available in those clusters. This helps

the lending bank in managing their credit risk by having access to information. The bank is also able to reduce its monitoring cost of borrowers because borrowers are located within particular clusters, which makes monitoring easy for the bank.

10. Linking with large industries – SSI linked as suppliers, service providers to large industries are usually successful ventures in India and need more attention.

When SSI units are linked to large units as suppliers, service providers, they provide input to large industries by way of raw material etc. The large units provide selling opportunities to SSI units. The disadvantage to SSI units in this arrangement is that SSI units have very limited power against large units when they enter into contractual arrangements with large units. If the large customers of SSI units do not pay in time, there is very little that SSI units can do to force large units to honour the contractual terms. All the same linking with large units help in reducing the costs of SSI units. Some large units also provide help to ancillary SSI units in modernisation/technological upgrading/market information. For a lending bank, this kind of relationship between a large unit and SSI unit is helpful in reducing the credit risk for the bank when they advance money to SSI unit. Banks can stipulate terms and conditions of loan agreements with SSI units which can facilitate easy recovery of bank loan given to SSI units.

11. Credit Information Bureau (CIBIL) was established in 2001 to serve as an effective mechanism for exchange of information between banks and financial institutions.

CIBIL is not involved in developing database on all SSI units. CIBIL provides information which is already available with the banks. Lending bank has still to rely on the branch manager and loan officer for obtaining information which would lead to a

credit decision. CIBIL's working does not help the lending bank to reduce its credit risk to a large extent.

From the above we can see that some of the policy initiatives of Government of India help in reducing the credit risk for the banks whereas others help in increasing the credit risk for the banks. The increase in credit risk is evidenced by the large number of non-performing assets of the banks in India, specifically in public sector. The reduced profitability of public sector banks as compared to private sector banks and foreign owned banks in India can also be explained due to the increased credit risk of public sector banks which are forced to follow the government credit norms.

In addition to the credit risk created for the banks as a consequence of following the government policies, there are additional problems encountered by banks in emerging economies in their risk evaluation process. The first problem is the difficulty in accessing the information by lending institutions in regard to the borrower's credit history and financial movements in the past. The bank can accumulate the information from the economic press and from the public databases in developed countries. In developing countries, such databases are non-existent. The Government of India in 2001 established the Credit Information Bureau with the purpose of establishing quick and effective exchange of information between banks and financial institutions. But CIBIL has very limited use in collecting credit information about borrowers in general and small borrowers in particular because that information may not be available easily to CIBIL or to the banks. It is possible for the borrowers to hide relevant information in regard to his or her past dealings, assets and credit from the banks. Banks have to invariably rely on the estimates made by their managers in the field – lending officers and branch managers.

In India, lenders do not have the same level of legal protection as the lenders in the Western countries. The financial law is not very developed to the same extent as in the West. In addition, the enforcement of financial contracts through the legal system is very time-consuming, costly and cumbersome. The Indian courts have a backlog of almost 27 million cases. According to the study by International Finance Corporation, ease of contract enforcement is critical to encourage business relationships, to generate confidence in business transactions and in the event of default, to enforce threat points in contracts. In countries, where companies have little or no access to courts to enforce contracts, they must rely on other mechanisms of financial dispute resolution – both formal and informal – such as trade associations, social networks, credit bureaus and private information channels. Companies may also adopt conservative business practices and deal only with repeat customers. Transactions are structured to avoid disputes. These alternatives may result in loss of social and economic value. The loss of economic value has the potential of increasing business risk. The IFC study (Doing Business, 2009) has evaluated countries on their ability to enforce contracts through the judicial system. The conclusion arrived in regard to India are listed below.

Table 2.5: Parameters of Doing Business in India (2009)

Number of procedures required to be completed	46	(20 for Ireland)
Time (in days) required for enforcing contract	1,420	(150 days for Singapore)
Cost (as % of debt) incurred in debt	39.6	(0.1 for Bhutan)
Recovery through legal system		
Legal Rights Index*	8	(10 for Hong Kong)
Credit Information Index	4	(Scale of 0-6)
Investor Protection Index**	6	(10 for New Zealand)

*Collateral and bankruptcy laws to facilitate lending.

**Transparency to transactions, liability for self dealing

From the above, it is clear that India rates poorly (ranked 122) on ease of doing business index) on the all the indices of investor protection through the legal system. The government however is trying to provide speedy mechanism of credit recovery through the specialised courts known as Debt Recovery Tribunals. These tribunals were established in 1994, and by 2003 had started operating in many cities. Only financial institutions are allowed to file cases for claims in these tribunals and only claims above Rs. one million are eligible to be redressed through the tribunals. But most of the loans given by banks are of less than Rupees one million each. The recovery of these loans, in case of default, can be redressed only through the Court System. As such, financial institutions in India face considerable risk in lending.

In addition to the limitation of the legal system described above, the resolution of financial disputes acquires low priority with the legal system, as compared to criminal cases. In many cases borrowers have escaped financial penalties and even the repayment of the principal and interest by questioning the rate of interest charged by banks as excessive and by suggesting that bank managers stifled their business activities when they did not provide timely credit. Some borrowers have transferred or sold their assets and utilised the proceeds for personal purpose instead of repaying the loan amount. The inability of the banks to enforce the financial contracts within a reasonable time period through the legal system also creates an additional credit risk to the bank.

Fig. 2.4 illustrates various influences on the relationship between branch manager and loan officers of Indian banks. These influences arise due to the fact that branch manager and loan officer are a part of a bank which is a commercial organisation operating in a particular political and social context. The influences on the branch manager and loan officer relationship arise due to the historical context of banking in India where social banking is considered an important part of government policy and

banks are required to follow that policy. Being a part of the organisation, branch manager and loan officer have to follow the policies laid down by Reserve Bank of India and delegated through head office, zonal office and regional office of the bank. The Term lending institutions such as IDBI, NABARD and EXIM bank influence the relationship because of their dealing with bank branches through the medium of head office. The branch manager and loan officer are also a part of the community in which they operate. This community consists of other organisations such as Local Government, customers and other staff members at the branch which exercise influence on the bank operations and consequently the relationship between branch manager and loan officer.

In the context of Indian banking, the branch of a bank is the place where most of bank lending occurs and the key players in the branch are branch manager and lending officer of the branch. Both the branch manager and the loan officer are dependent of each other in order to achieve lending outcomes. This inter-dependence between the branch manager and the loan officer started when the banks were nationalised and the government started pursuing a policy of social banking. The geographical and functional expansion of the branches after nationalisation of banks created the atmosphere when the branch managers and loan officers were subjected to government directives in regard to their lending functions.

Being a part of a hierarchical structure and being made accountable to various stakeholders' influences, the loan officer and the branch managers are exposed to a risky environment. The policies of government require the Reserve Bank of India and all banks to follow the government's instruction in regard to lending to priority sectors

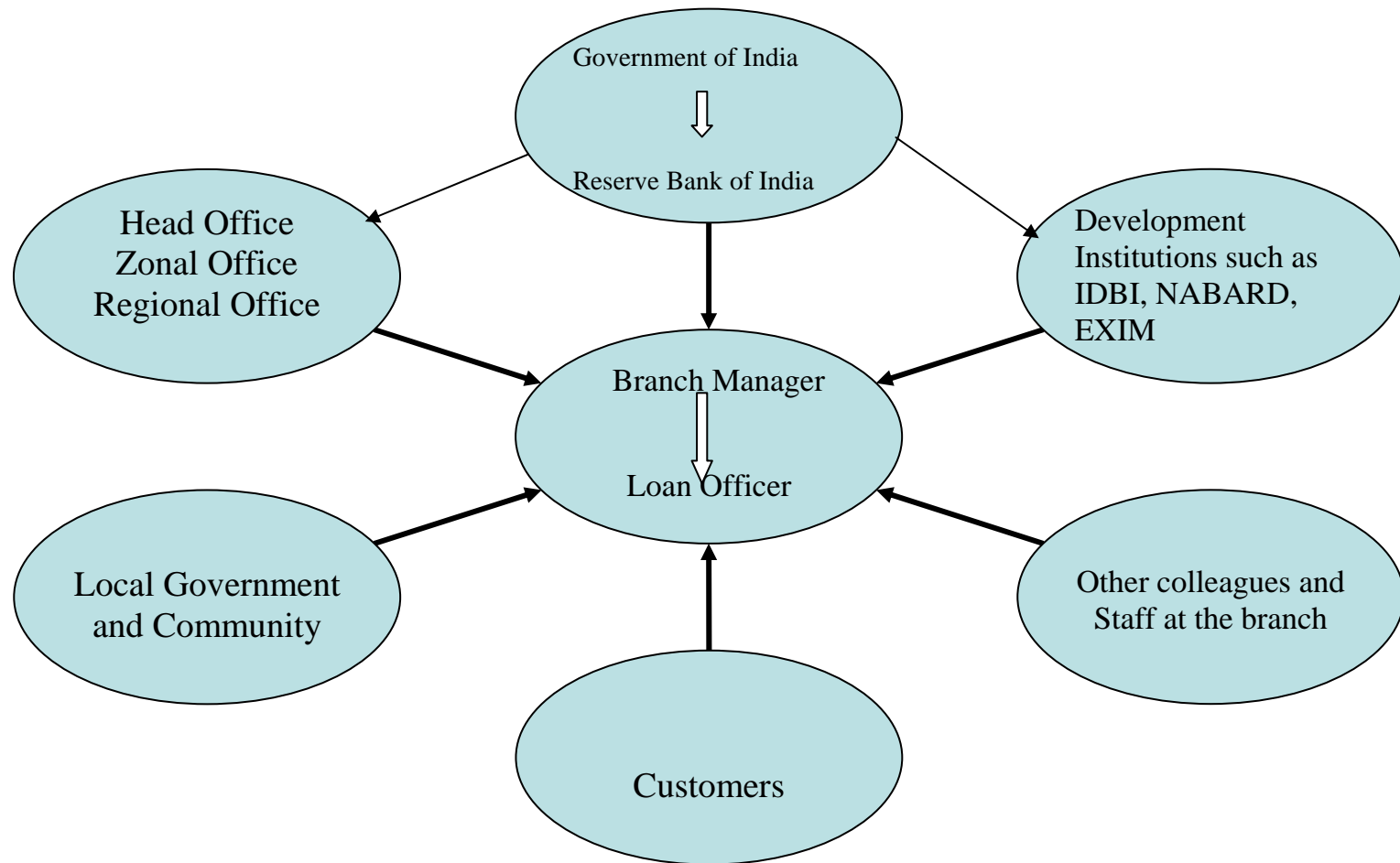


Fig 2.4: Diagram showing the relationship of the branch manager and Loan Officer at the branch

of the economy. However lending to these priority sectors is risky because of the dilution of lending norms for these sectors and diminished recovery aspects of loans. Yet branch managers and loan officers have to observe the binding lending targets set for them.

This risky situation creates a relationship of mutual dependence between the branch manager and the loan officer where trust theory is particularly applicable. Trust is an important element of the relationship between the branch manager and the loan officer, which has great deal of risk attached to it. The risk arises due to substantial payoffs and the cost to both the functionaries in the observance of the government guidelines and policies.

In such a context, trust theory is suitable for describing this particular relationship. Trust theory is useful in identifying influential factors in this relationship which contributes to the growth and development securing good outcomes for both branch manager and the loan officer. By using trust theory the factors that can help in developing, growing and maturing this relationship can be described.

2.8 Summary of the chapter

This chapter examined the history and the organisational structure of the banking system of India as a necessary background for understanding the organisational, structural and management factors that influence the trust relationship between branch manager and loan officer of Indian bank branches. This chapter was divided into five parts: (1) historical context of Indian banking system; (2) organisational structure; (3) banking policies; (4) lending policies; and (5) performance on Indian banks.

In the first part, phases of historical development in the Indian banking system and major characteristics of each phase were discussed to identify the main characteristics of each phase and factors that drove development in Indian banking system. The first phase was characterised by the development of basic structure of Indian banks from 1786 to 1947. After 1947 the second stage of first phase was characterised by the Government of India taking control of supervision and regulation of banks by enacting *The Banking Regulation Act, (1949)* and giving authority to Reserve Bank of India. The second phase started from 1955 and continued till 1992. This phase is characterised by nationalisation of banks by the government of India, first in 1955 when the State Bank of India was nationalised, followed by the nationalisation of 14 banks in 1969. This was again followed by the nationalisation of six more banks in 1980. The third phase started in 1992 and was characterised by consolidation of banking system in India. The state owned banks were given more autonomy towards management of banks. The government of India adopted policies which would help the banks in improving their profitability while orienting banks towards improved market conduct. The pace of banking reforms in India have however been very slow and half hearted as government has retracted on ownership status of banks and on pursuing policies such as the one on priority sector lending.

Next the structure and organisation of banks in India is discussed. The structure is important in determining the external factors that impact on the relationship between branch manager and loan officer. The banking system of India is classified into organised and unorganised sectors. The organised sector consists of the commercial banks, cooperative banks, regional rural banks and development banks. The unorganised sector consists of money lenders, chit funds and pawn brokers. The

organised sector comes under the purview of Reserve Bank of India while unorganised sector is beyond the control of regulatory and government organisations.

The policy context in which banks in India operate is examined next. The way these policies affect the risk for banks is also discussed. The Reserve Bank of India has used cash reserve ratio and statutory liquidity ratio as instruments in establishing liquidity and solvency of banks and also as an instrument of credit control of banks. After nationalisation, the Government of India pursued a policy of horizontal and functional expansion of banks. Consequently, the number of bank branches in India increased considerably after the nationalisation of banks in 1969. As a part of functional expansion, the banks were given a wider scope of business. The nature of bank financing changed from short term to medium term to long term. Banks were also directed to assist priority sector in lending. The Reserve Bank of India also pursued a policy of controlled interest rates on deposits and lending of banks. After 1990, the Reserve Bank of India followed a policy of deregulation of interest rates to improve competition among banks. The policy of directed credit in second phase led to the introduction of lending to priority sectors of economy by banks. Under this policy certain sectors of economy such as agriculture and small scale industries were given priority in lending by banks and were allocated certain minimum quota of total lending by banks. The pressure exerted by the Reserve Bank on government banks on lending to priority sector lending resulted in indiscriminate lending by banks. This resulted in substantial increase in non-performing loans by banks and banks suffered considerable loss in profitability.

The growth, structure, policies and performance of banks have many implications for lending by bank branches in India. These implications create credit risk

for branch managers and loan officers of bank branches in India as these functionaries try to implement the policies and procedures in an environment determined by the Government policies and bank structure. The Reserve Bank has put in place measures for enhancing customer service and strengthening of customer grievance handling mechanisms. Government policies have created increased expectations and awareness among customers. The increased expectations of customers and their concerns along with policy measures of the Government and Reserve Bank of India have enhanced the credit risk for lending banks in India.

In addition to increased credit risk, banks in India also face problems in accessing information about borrowers. The lending banks also do not have same level of legal protection as the lenders in Western countries. The financial law in India is also not very well developed and enforcement of financial contracts through legal system is time consuming, costly and cumbersome. Thus branch managers and loan officers of bank branches in India face a much higher risk than their Western counterparts because of policies of the government, the structure of the banking system, lack of information and lack of legal protection. This increased level of risk to branch managers and loan officers create a relationship of mutual trust between them because they can reduce mutual risk through development of a trust relationship. By using trust theory the factors that can help in developing, growing and maturing this relationship can be described.

Chapter 3

Bank Lending and Trust

3.1 Introduction

In the previous chapter, the operational structure of Indian banking system was discussed and the business environment in which the branch manager and the loan officer of Indian banks operate was examined. The discussion on the history, organisation and structure of banking environment helped in determining the organisational, business and regulatory constraints that influence the relationship between the branch managers and loan officers of bank branches in India.

It was observed in the previous chapter that the form of organisation and structure within the Indian banking system is such that, along with cultural factors, the organisational form and structure heightens the role of trust in determining the nature, development and effectiveness of relationship between the branch manager and the loan officer of Indian bank branches. It was determined that the organisational context in the Indian banking system and branch banking provide an appropriate setting for the examination of trust. Trust theory plays an important role in analysing the dynamics of the relationship between the branch manager and the loan officer.

The aim of this chapter is to establish that trust theory versus the agency theory is the most appropriate theoretical approach to gain insight into the behavioural issues, dimensions and factors that operate in the formation, development and effective operation of the relationship between the branch manager and the loan officer of bank branches in India.

The agency theory has been used extensively in the finance literature to examine the principal-agent relationship. Agency theory has specific objectives, aims,

assumptions, mechanisms and processes to answer specific questions and issues about agency relationships. Its focus however tends to be very narrow. Its main focus is how to ensure that agents act in the best interest of the principal and not their own. It is based on rational economic theory and tends to be fairly technical in its processes. Agency theory is not designed to deal with the behavioural dimensions of an agent or is equipped to investigate these factors that are crucial to the formation, development and effective operation of a relationship.

The branch manager-loan officer relationship is different from the classical agency relationship. The issues examined in this thesis are not those which agency theory focuses on. The major aim of this thesis is to examine the behavioural issues, dimensions and factors that operate in the formation, development and effective operation of the relationship between the branch manager and the loan officers in the Indian banking System. The analysis addressed is about the behavioural dimensions and factors that are fundamental to the formation, development and effective operation of the branch manager-loan officer relationship. These factors may include some elements of agency theory. Although there is some overlap in assumptions, purpose and mechanics of agency theory and trust theory, the main purpose and focus of the two theories and the issue they attempt to address is different. Agency theory regards relationship as a contractual process. Trust theory helps in gaining insights into the behavioural dimension of a multifaceted relationship. In this thesis trust theory is considered more suitable to describe and analyse the relationship between branch manager and loan officer because the relationship between branch manager and loan officer is multi-faceted.

In Section 3.2 of this chapter, an overview of the relationship between the Branch manager and the Loan officer of bank branches in India is given. In Section 3,

Agency theory, its major assumptions, dimensions, mechanisms and limitations are described. Agency theory, however, has several limitations in describing the relationship between branch manager and the loan officer. In Section 3.4, the Agency theory and Trust theory are compared in terms of the relevance of each theory in describing the relationship between branch manager and loan officers of Indian bank branches. The comparison is made in terms of assumptions, dimensions, mechanisms and issues addressed by each theory. This comparison leads to the conclusion that Trust theory is more appropriate in describing the behavioural aspects of the relationship between the branch manager and the loan officers of Indian bank branches. In Section 3.5, Trust theory and its various dimensions are described in detail and applied to the relationship between the branch manager and loan officer relationship. The theoretical model of Mayer, Davis and Schoorman (1995) is used to understand the key factors of trust between branch manager and loan officers. The stages of trust development proposed by Lewicki and Bunker (1996) are used to examine the stages of trust relationship between branch manager and loan officer.

3.2 Role of Branch Manager and Loan Officer in Lending

Branch managers of a bank are the leaders and chief executive at the local level of the branch. Branch managers are responsible for the profitable operations of the branch. They supervise the deposit taking effort of the branch by evolving strategy for new accounts and expansions of current business. They monitor the sales managers' effort on the business and personal customers, resolve customer complaints, set and evaluate the standards of performance of sales team. Branch managers also approve loan requests within their delegated authority. This approval is done based on the evaluation of loan applications by loan officers. Sometimes, in case of exigencies, branch manager may

also delegate their lending authority to loan officers for temporary period or on a case-by-case basis.

When branch managers delegate their authority to lending officers, even for a temporary period they take a considerable risk because if the lending officers do not use the delegated authority in accordance with the bank's policies and procedures, branch managers may be held accountable for any mistakes committed by lending officers. Branch managers will however not delegate their authority unless they trust the lending officers. When lending officers assume the authority of branch managers on delegation, they also take a risk because if the loans are not approved according to the bank's policies and procedures, branch managers may refuse to confirm the actions of lending officers about the loans. In such an event, the lending officers may be held personally accountable for any lapse of judgment. The branch managers will not delegate their authority to lending officers nor will the lending officers assume the delegated authority of the branch managers unless there is a trust between branch manager and the lending officer.

At the branch level, the job of a loan officer may involve accepting and analysing loan applications submitted by various clients - business, household, institutional. The loan officer makes initial contact with the customer, helps the customer fill out the forms and explains to them the various products and services available in the lending area. Loan officers are usually the first point of contact between the bank and a borrower-customer. Loan officers help in developing a service relationship with the customer. Next the loan officers may help in preparing a detailed assessment of the lending application. This may involve assessing the financial, legal and economic viability of the application and consideration of the risk and benefits involved to the bank. Loan officers may handle sensitive documents and collect

confidential information in this regard. Based on their assessment the loan officer may advise the branch manager on the risks and benefits of accepting a particular loan application. The branch manager has to put a considerable degree of confidence on the ability of loan officer in handling potentially risk business. The branch manager has to trust the loan officer.

Branch manager is a superior officer whereas the loan officer is a subordinate officer. Therefore, the relationship between branch manager and loan officer can be described as superior subordinate relationship. Both the branch manager and loan officer operate in a risky environment and assume risk by virtue of their credit responsibilities. But sometimes they may act independently of each other, while at other times the branch manager may delegate authority to the loan officer. When the branch manager delegates his or her authority to loan officer, the relationship between the two will involve issues relating to the delegation of authority. Again, both branch manager and loan officer are accountable to the head office of the bank and senior management for their decisions. Also they work in a group situation because the bank is a hierarchical organisation and both these functionaries interact with other employees of the bank while performing their responsibilities towards the bank. Both the branch manager and the loan officer are the agents of the bank and are expected to adhere to bank's policies and procedures.

A branch manager cannot be exactly termed as a principal and the loan officer is not acting exclusively on behalf of the branch manager alone. Therefore the relationship between the branch manager and the loan officer is more complex than a principal agent relationship as observed in the finance literature. It is however useful to start the discussion on this relationship using the agency theory because this is the most exhaustively researched relationship in finance (Wintoro, 2000).

3.3 Agency Theory Approach

The most common type of relationship used in finance literature, concerns the specific agency aspect of a relationship. The agency relationship based on the agency theory of Jensen and Meckling (1976, p.308), define the agency relationship as "a contract under which one or more persons (the principal) engage another person (the agent) to perform some service on behalf of the principal which involves delegating some decision making authority to the agent". Agency theory is based on a contractual relationship between the principal and the agent.

There are three components of this definition given by Jensen and Meckling (1976). First is the existence of a contract between a principal and an agent. The second is a performance of a service. The third is delegation of decision-making authority. According to Beccerra and Gupta (1999, p.184) the objective of agency theory is to design a contract that minimises the cost of service performed by the agent to the principal. The agent needs to work for the principal under certain constraints. The first constraint is known as the participation constraint when the agent needs to agree to work for the principal. The second is the incentive constraint when the agent needs to work hard for the principal despite disutility of the work for the agent. The principal bears the risk of his/her delegation to the agent and carry the cost and benefit of the delegation.

According to Baiman (1982), the risk to the principal arises from the attitudinal and informational context in which the agency relationship takes place. If the attitudinal differences do not exist, then the agency costs can be avoided. An Agency relationship can be characterised by information asymmetries between the principal and the agent. The principal may not have complete information about the competence or the level of effort invested by the agent with respect to the delegated task. Some degree of

information asymmetry is considered to be essential by Baiman (1982) for agency costs to exist.

The objective of Agency theory is to identify agency problems that could arise in an agency relationship and to establish options for the principal which will help him or her in reducing agency costs. Eisenhardt (1989) identified the following problems that may arise in an agency relationship. First the goal of principal and agent is in conflict. Second, it is costly for the principal to monitor and to evaluate the behaviour of the agent (Eisenhardt, 1989; Keil, 1995). These agency problems are identified in the literature as problems of horizon, effort, differential risk preference, and use of assets by Byrd, Parrino and Pritsch, (1998).

An effort problem occurs when the executive's (an agent) effort in creating value to the shareholders (the principal) is less than the expectation of the shareholder (the principal) towards him/her because he/she joins the board of directors of another firm (Byrd, Parrino and Pritsch, 1998). This effort problem was investigated by Rosenstein and Wyatt (1990) by observing the stock market reaction to the addition of another member to the board of directors from another firm. Their findings indicate that the reaction of market participants to the announcements is very negative when inside directors own less than 5 per cent of the firm's common stock. The market's reaction could be interpreted as the market's perception of the firm's value due the inclusion of a director from another firm. The market interpreted director's appointment as contributing to reduction in effort of the management of the firm and reduction in the value of the firm.

The second problem is the horizon problem which may occur when the executive (an agent) of a firm have different horizon to stockholders (the principal) According to Byrd, Parrino, Pritsch, (1998), if an executive has limited time in the firm,

he/she will prefer to implement strategies that produce short-term rather than long-term outcomes. For example, Murphy and Zimmerman (1993) have provided evidence of the horizon problem by investigating the behaviour of a variety of financial variables with a CEO turnover. Their study suggests that research and development costs, advertising expenses and capital expenditures are diminishing surrounding CEO turnover, especially when the firm has a poor performance. The short term tenure of CEOs led to short term investment decisions by firms affecting their long term performance and market value. In these cases the horizon of the CEOs was short term as compared to shareholder's horizon. Due to their short term horizon the CEOs did not undertake decisions which were perceived to be risky but adding value to the firm. The CEOs decisions in regard to research and development costs, advertising expenses and capital expenditures had the potential of affecting the long term value of the firm and shareholder's wealth.

The third issue addressed by principal agent relation is the differential risk preference problem. This problem arises when an executive of a firm (the agents) believes that his/her responsibilities for the firm's poor performance are greater than his/her benefits received during the firm's period of good performance (Byrd, Parrino and Pritsch, 1998). This belief motivates the executives (agent) to take low risks in business which reduce the firm's risk profile by adopting, integrating or diversifying firm's business to improve firm's performance even when it is costly to firm's shareholders. The evidence of this issue was provided by Berger and Ofek (1994) who investigated the effect of diversification on a firm's value. Berger and Ofek(1994) found that firm's value decreased by 13% to 15% from diversification during 1986-1991. They observed firm values with a sample of 3,569 firms and 16,181 observations. The evidence indicates that executives reduced risk by using diversification and acquisition

of low risk assets but the expense of diversification was borne by shareholders (the principal) through reduction in firm value.

The fourth issue addressed by principal-agent relationship is asset use problem. An asset use problem may occur when an executive (as agent) of a firm uses a firm's asset for personal purposes or an executive makes an investment decision to increase the firm's expansion which could result in an increase in income of the executive. The expense of the use of the asset (or perquisite) is met by the shareholders (as principal) and could result in decreasing the wealth of the shareholders (as principal) The agent could derive pecuniary benefit or non-pecuniary benefits from the relationship with the principal. The non-financial benefits may include “the physical appointments of the office, the attractiveness of the secretarial staff etc. (Jensen and Meckling, 1976, p.486).

In order to deal with goal incongruence between the principal and the agent as demonstrated by effort problem, horizon problem, differential risk problem and asset use problem, Agency theory provides for mechanisms that help in reducing agency costs. There are two ways recommended. One is by providing incentives to the agent and second is monitoring agent behaviour. The contract between the principal and the agent could provide incentives to agents by reducing the attitudinal differences between the principal and the agent. These incentives would help the agent in aligning the agent's behaviour towards the principal. The second mechanism is to monitor the behaviour of the agent directly for the purpose of reducing information asymmetry between the principal and the agent. The additional incentive given to the agent and monitoring costs incurred by the principal are part of the agency costs. The agency relationship could also generate residual costs where the agent takes some decisions on their own and the principal bears the risks and the cost of these decisions by the agents. The agent could also incur ex-ante bonding costs, which are measures taken to

demonstrate commitment to principal and which are targeted to guarantee the principal that action will not be taken by the agent to contravene the duties implied by the agency relationship. According to Hill and Jones (1992), the sum of a principal's monitoring costs, agent's bonding costs and any residual costs is defined as the agency cost.

According to Eisenhardt (1989), the main focus of agency relationship is the selection of appropriate governance mechanisms between the principal and agent that will ensure an efficient alignment of principal's and agent's interests. The goal is to ensure that the agent will serve the interest of the principal thereby minimising the agency costs. Both outcome and behaviour based contracts are utilised as a means to achieve this end. The agency theory focuses on the relationship that mirrors the basic agency structure of a principal and agent who are engaged in a cooperative behaviour but have different goals and attitude towards risk.

According to Shankman (1999) agency theory focuses on the agency relationship in which one actor and the group (the agent) has certain obligations which are fulfilled for another actor or group (the principal) by virtue of their economic relationship. The underlying mechanism with which the relationship is articulated is in terms of a contract between the principal and the agent. The firm is seen as a nexus of contracts between the principal and the agent. The agency theory, according to Shankman (1999) rests on the assumption that the desire and goals of the agent and principal conflict. That it is difficult for the principal to verify what the agent is doing. This is termed agency problem. Other differences arise where the principal and the agent have different attitudes towards risk and thus will prefer, all other things being equal, a different course of action. This is a problem of risk sharing. Agency theory provides many insights on agency relationships. First, Agency theory establishes the importance of incentives and self-interest in organisational thinking. Second, Agency

theory introduces the notion of information as a commodity. Third, Agency theory examines the risk preference in cooperative relationship between individuals.

Shankman (1999) has provided many arguments describing the limitations of Agency theory. The first argument advanced by Shankman (1999) is that Agency theory relies on an oversimplified notion of private property rights and moral obligations of managers to act only in the interest of owners. Shankman (1999) cites Donaldson and Preston (1995) to state that the concept of private property does not ascribe unlimited rights to owners and the responsibilities of managers is to act solely as the agent of the principal. The second argument is that Agency theory focuses on the interest of principal as having primary importance and ignores the interest of other stakeholders. The third argument against this theory is that the agency theory sees the individual behaviour of the principal and the agent as morally hazardous. The examples of morally hazardous behaviour are demonstrated by the attributes of opportunistic behaviour and adverse selection including propensity to cheat, steal and shirk on the part of the agent and principal. Agency theory portrays a very negative aspect of human behaviour and sets human behaviour as immoral and opportunistic only. Shankman (1999) argues that this portrayal of human behaviour is against the observed tenets of efficiency where it is expected that honouring agreements, avoiding lying, respecting the autonomy of others and avoiding economic harm to others are pre-conditions for working of efficient markets.

Ross (1973) has criticised Agency theory on the grounds that it is rooted in economic utilitarianism. By narrowing focus on the principal-agent relationship and based on the assumptions, Agency theory provides predictions about what rational individuals could do if placed in a principal-agent relationship (Wright, 2001). The agency relationship is based on the opportunistic behaviour of a single principal and a

single agent. According to Donaldson (1990), this theory supports the examination of economic behaviour from the behaviour of individuals. The agent and the principal are perceived to be their own utility maximisers because the presumption of the theory is that the agent will not act in the best interest of the principal (Jensen and Meckling, 1976). Wright (2001) considers Agency theory to be restrictive because the theory discounts the possibility that different individuals may behave differently in economic situations.

3.4 Comparison of Agency Theory and Trust Theory

Compared to Agency theory perspective on principal-agent relationship as discussed above, Trust theory provides a different perspective on relationship between economic agents. The agency theory is built on a number of explicit assumptions about the behaviour of the agents.

Agency theory describes the agency relationship between the principal and the agent as uni-dimensional where only two individuals – the principal and the agent are the part of a relationship. The performance of the agent towards the principal is considered as a single component of the relationship which determines the quality of the relationship. In reality, most business relationships are multifaceted and multiplex. People relate to each other in different ways and through other people. Within the same relationship we could have different encounters in context with different intentions that could lead to different outcomes (Lewicki and McAllister, 1998, p. 442). Trust theory takes into consideration these multifaceted aspects of the relationships into consideration through stakeholder's perspective. Shankman(1999) has argued that it is in the interest of the principal to develop a trusting relationship with the agent because it drastically reduces the amount of resources that must be directed towards monitoring of the agent thereby returning more profit to the principal. Shankman (1999) suggests that

the concept of private property used in Agency theory must include a stakeholder's perspective. Models of firm that only recognises owner-manager or economic stakeholders are inconsistent with the market economies. A moral minimum exists in markets economy which includes duties to multiple stakeholders.

Agency theorists refer to the problem of opportunism as being self-interest, seeking with a guile (Williamson, 1975). The expectation is that the economic agents may disguise, mislead, distort or cheat as they partner in exchange. In spite of incentives and monitoring, the opportunism is likely to prevail in agency relationship because of adverse selection or moral hazard (Wright, 2001, p. 415). Trust theory place a positive expectation on the individual. Barber (1983) states that the fiduciary duty of professionals was to place the interest of the individual who is trusted before the interest of the professional who is trusting. Barber's concept requires a person who is trusting and who is trusted with trust being the optimistic expectation of a single individual relative to the eventual outcome of an uncertain event. Barber (1983) puts forward the sense of fiduciary duty, placing the interest of others before the interest of person being trusted as being found in each person engaged in a relationship. Zand (1972) defines trust as being the willingness of one person (the principal) to increase his or her vulnerability to the action of others (agent) whose behaviour he or she cannot control. Whereas Agency theory is based on opportunistic self-interest of others, Trust theory supports the willingness of one person to be vulnerable to the action of others in an interpersonal business relationship.

Agency theory assumes a risk averse agent and expects agents to exhibit risk-averse behaviour in decision making. Deviations from this assumption of risk averse behaviour are considered to be abnormalities and distortions that are exceptions. The connection between risk and trust is very close. According to Mayer, Davis and

Schoorman (1995), the existence of trust allows an individual to accept risk and become vulnerable to the other party. According to Beccerra and Gupta (1999, p.182) the risk inherent in trusting another person emerges from two characteristics of the contexts in which any relationship occurs. Everybody does not have the same attitudes towards the society or others. There are people who have negative attitude towards society. The integrity and benevolence of people vary across society. We subjectively evaluate the characteristics of others based on limited information, which becomes the basis of trust. But in trusting others we assume risk and become vulnerable to the action of others. Trust generates willingness to become vulnerable to the actions of others. This vulnerability is inherently risky because we may not have the information about other people's attitudes, behaviour and competence. Agency theory relies on risk-aversion of agents whereas Trust theory considers assumption of risk as an inherent part of a relationship.

Agency theory assumes that a goal conflict exists between principal and the agent in an agency relationship. The principal (owner) derives financial benefits or costs from agency relationship. The agent derives not only pecuniary but also non-pecuniary benefits or costs from agency relationship. The non-financial rewards (or costs) are consumed by the agent only at the cost of principal. The goal conflict exists between the principal and the agent because of different utility functions of the agent and the principal. The agent's decisions are considered costly to the principal. According to Jensen and Meckling (1976, p. 487), some agents may be work averse and resort to shirking in order to lower their disutility associated with the effort in a work. The agency theory assumes a goal conflict since shirking by the agent is detrimental to the interest of the principal. Trust theory supports a goal orientation between the trusted and the trustor. McClelland (1960) disputes the assumption of goal conflict and explains that

in a different situation agents may enjoy performing responsibly because of their personal need for achievement. The agent under such circumstances may not mind exerting extra effort in their work because the utility associated with their sense of achievement on their particular job may dominate the disutility associated with the corresponding effort expended. This according to Barber (1983) is true when there are expectation of technically competent role performance between the principal and the agent. Carnavale(1982, p.13) describes trust as an expectation essential for achieving mutual cooperation and goal congruence and benevolence of trusted towards trustor. Trust, according to Hosmer (1995), is willing cooperation and with an expectation that benefit will result from such cooperation. The object of trust is perceived to increase or facilitate cooperation and potential for joint cooperation resulting in benefits to both parties involved.

Agency theory includes the notion of costs and benefits that accrue in the relationship between the principal and the agent. The contracting and monitoring costs are incurred because the principal has to negotiate and monitor detailed contracts to protect against the opportunistic behaviour of agents. Williamson argues that these contracts are needed only when untrustworthy agents could not be clearly identified. Hill (1990) proposed that it was possible to reduce these transaction costs through a reputation for non-opportunistic behaviour. Bromily and Cummins (1992, p.4) argue that trust could reduce transaction costs. According to them “trust is the expectation that another individual or group will make a good faith effort in accordance with commitment, be honest in whatever negotiations preceded these commitments and not take excessive advantage of others when opportunity is available. Trust helps in reducing the monitoring and controlling costs for the principal and eliminating the need for putting in place control systems that were based on short-term results. Bradach and

Eccles (1989) proposed that market and hierarchies were not the only means of governing economic transactions but price, authority and trust were independent methods that could be combined in many ways for the purpose of reducing transaction costs in economic situations. Thus, trust helps in reducing the costs of monitoring economic behaviour of agents by making an effort consistent with commitment and honesty. The trusted is influenced by considerations of preserving his or her reputation as being “trustworthy”. According to Shapiro (1987), Agency theory is helpful in analysing situations where lack of trust is relatively high (impersonal trust) and may have a limited utility in situations involving high degree of trust. Table 3.1 provides a comparison of Trust theory and Agency theory on various dimensions as discussed above and based on the analytical comparison provided by Beccerra and Gupta (1999).

3.5 Trust theory and lending relationship between the branch manager and the loan officer

In the context of lending relationship between branch manager and loan officers of Indian bank branches, Trust theory is considered to be more useful in describing this relationship as compared to Agency theory for the following reasons. First, both branch manager and the loan officer work for an organisation. As part of this organisation, they have a multi faceted relationship. The nature of this multifaceted relationship is described in Fig. 2.4. Both branch manager and loan officer are responsible and accountable to many people in the organisation and also outside the organisation. Being part of the banking system, the branch manager and loan officer have a number of interactions with many people including head office, regional office, zonal office, local government organisations, other staff in the bank branches, customers and the local population, who help in developing this relationship between branch manager and loan officer and also influence this relationship. Agency theory is relevant where

relationships are uni-dimensional. Trust Theory is more appropriate and relevant in a multi-dimensional relationship such as the one between the branch manager and loan officer. (Lewicki and McAllister, 1999).

Table 3.1: Comparison of Agency and Trust Literature

Please see print copy for image



Source: Beccerra and Gupta (1999), p. 179.

Secondly, there is no direct principal-agent relationship between the branch manager and the loan officer of bank branches. Both branch manager and loan officer work for their organisation and their interpersonal relationship cannot be termed as principal-agent relationship as defined by Agency theory. Although this relationship has elements of task delegation by branch manager to loan officer, this delegation is not an

agency relationship in the nature of Agency theory. The branch manager is vulnerable and dependent on the action of the loan officer because the loan officer has to perform a number of tasks such as assessment of loan applications, gathering information about prospective and current customers, analysing the information and making recommendations on credit decisions. But the dependence between the branch manager and the loan officer is mutual as the loan officer has to depend on the branch manager for support in discharging his or her job, making recommendation to superiors and sorting out problems with other functionaries or customers. In interpersonal relationships involving mutual dependence, trust is considered an appropriate descriptor of the relationship between people as compared to Agency theory (Michaelos, 1990, p. 620; Gambetta, 1988, p.217).

Thirdly, the relationship between the branch manager and the loan officer can be described as a superior-subordinate relationship because of the inequality of positions between the two. In situations of superior-subordinate relationship, trust can be used to describe the interpersonal relationship between the two. According to Jennings (1971) trust by superior is an essential condition of the promotion of a subordinate. Gabbaro (1978) found that trust by the subordinate was an essential condition for effective action by superior. Trust by the manager is essential if the loan officer wishes to progress in organisational hierarchy and trust by the loan officer is essential condition for producing effective lending performance by the branch manager. According to Butler (1991, p.647), trust is an important aspect of interpersonal relation and to the development of managerial careers and trust in specific person is more relevant in predicting outcomes. While Agency theory relies on distrust between principal and agent, Trust theory helps in describing the mechanism by which branch manager and the loan officer can develop their managerial careers and improve organisational outcomes.

Next, both branch manager and loan officer are involved in the business of lending to customers. This lending business involves assumptions of considerable risk by the branch manager and the loan officer on behalf of the bank. Agency theory assumes risk averse behaviour on the part of principal and agent. The lending function of the branch manager and loan officer involves taking informed risks on loan applications, the outcome of which could be uncertain to both branch manager and the loan officer. A good outcome could be beneficial to both branch manager and the loan officer and a problem loan could be detrimental to both branch manager and the loan officer. Unlike in a principal-agent relationship where agents try to gain at the expense of principal and vice-versa, in a branch manager and loan officer relationship, the gains and losses for both the branch manager and loan officer are reflected in organisational gains and losses and considered mutual. There is no opportunity for either the branch manager or the loan officer to gain at the expense of other. In such a situation of mutual dependence and vulnerability, Trust theory is better able to describe the aspects of relationship as compared to agency theory. Cooperation and trust between branch manager and loan officer can help in improving the lending performance of the branch whereas opportunistic behaviour can lead to reduction in performance level of the branch, which could result in harm to both branch manager and the loan officer. Both the branch manager and loan officer have a goal congruence because both have the goal of improving the lending performance of the branch. In situations of goal congruence/goal orientation, trust theory is better in describing interpersonal economic relationship as compared to agency theory.

3.6 What is Trust?

Considerable interest has grown in the Trust theory in recent years. In particular the role of trust in economic and business relationships has emerged as a response to the

self interest and opportunism advocated by agency theory. (Bromiley & Cunnings, 1992; Etzioni, 1988). Trust has also emerged as an important factor in managerial beliefs and philosophies (Miles & Creed, 1995; Sitkin & Roth, 1993) and as a mechanism of organisation control (Bradach & Eccles, 1989). A number of researchers have shown that trust can be an important element of business relationships and help in developing the quality of business relationships over a long term. Shemwell, Cronon & Bullard, 1994; Wray, Palmer and Bejou, 1994; Chow & Holden, 1997; Inkpen & Currall, 1997).

Trust has emerged as an alternative to Agency theory because society has become critical about business values in recent years. The role of business and commerce in society is being evaluated critically and society is finding it hard to accept the unethical dimensions of the business in the name of preserving the bottom line or creating economic value. According to Glover (1995, p.17) "Commercial interaction is now investigated more critically and the rightness of market outcomes is no longer passively accepted. A majority of the people, it is thought, find the uncorrected morality of the marketplace unacceptable." Modern economic theory may also have failed to recognise an impetus for human betterment (Whitehead, 1929) and focused on negative opportunism (Griesinger, 1990). The application of Trust theory to business relationships has emerged as an expectation that another's action will be beneficial rather than detrimental (Gambetta, 1988). Trust is considered as "an important factor in all market transactions. Market freedoms could be inconceivable without a social order rooted in community norms including trust." (Etzioni, 1988; Granovetter, 1985).

Trust has been studied in the past in diverse perspectives, methods and goals. This diversity in the range of context in which trust has been studied reflects the flexibility with which trust can be used to describe various relationships. Trust can be

used to describe relationships between individuals (Johnson, George and Swap, 1982), between organisations (Gulati, 1995), between individuals and social institutions (Barber, 1982), between individuals and organisations (Zaheer, McEvily and Perrone, 1996), within public organisations (Carnavale, 1995), as a general characteristics of different societies (Fukuyama, 1995) and as a personal trait (Rotter, 1971).

Trust plays an important part within organisations. Trust is considered necessary for individuals and societies to function properly. Erikson (1968) considered trust as the "central ingredient of the healthy personality". Arrow (1974) regards trust as an important and extremely important lubricant of the social system. Trust is observed to reduce conflicts (Zaheer, McEvily and Perrone, 1998), improve individual performances (McAllister, 1995), promote interorganisational cooperation (Ring and vandeVen, 1994) and increase the commitment of foreign subsidiary managers (Kim and Mauborgne, 1993).

The connection between risk and trust has been studied and acknowledged by Mayer, Davis and Schoorman (1995). Beccerra and Gupta (1999) suggest that the "existence of trust allows an individual to accept risks and become vulnerable to another". Trust becomes an important issue in interactions between individuals where there is a possibility of advantage being taken by individuals. In such situations individual attitudes play an important part. People with negative attitudes may lie, steal, cheat, hate or cause wanton damage. People with positive attitudes help and support others. The integrity of individuals varies across relationships and this variation in attitudes is a potential source of risk (Mayer, David and Shoorman, 1985). In certain relationship such as the one between bank manager and loan officer, the individuals may never fully know the attitudes of others. In such situations people may subjectively

evaluate the characteristics of other individuals based on the information they possess. These subjective assessments may form the basis of trust.

Although researchers have studied many dimensions of trust such as benevolence, integrity, honesty, consistency, predictability, competence, openness, dependability, respect and keeping commitments (Butler, 1991; Mayer, David and Shoorman, 1995), there is still no widely accepted categorisation of the dimensions which constitute trust. Because of the limited information available about other individual's attitudes, behaviour and competence, an assessment of these dimensions is made by people in relationships.

The evaluation of these dimensions may rely on two characteristics of relationships: personal and impersonal factors (Granovetter, 1985; Shapiro, 1987; Sitkin and Roth, 1993). Mutual knowledge and identification forms the basis of personal trust (Lewicki and Bunker, 1996; Zucker, 1986) and impersonal trust is the basis of keeping a reputation of honesty (Dasgupta, 1988). Trust is based on relationship and trust creates risk. It is therefore necessary to study the risk aspects of relationships in detail, if we want to learn about the effect of the relationship on the outcomes.

The concept of trust may mean different things to different people. People enter into trusting relationships with others continuously. When they enter into these relationships they may not realise the importance that trust might have on their relationships. The Oxford English Dictionary defines trust as, "confidence in or reliance on some quality or attributes of a person or a thing or the truth of a statement, as the confident expectation of something." and the action of trusting as, "to have faith or confidence in, or to rely upon." This definition includes confidence, reliance, quality or attributes of truth and expectations are linked to each other and form the basis of trustworthiness.

There are a number of approaches available in the literature on trust. Psychological approaches to trust concentrate on the personality traits of an individual (Rotter, 1980), Lewicki et al. (2006). Sociological approaches interpret trust as "individual characteristics perceived by others as trustworthy (Dasgupta, 1990) or "observed behaviour of individuals in situations that exposes them to the probability of risk (Worchel, 1979). Lewis and Weigert (1985) regard trust as "applicable to relations among people rather than psychological state of individuals" Dikken (2000, p.7) categorised trust into three layers: (i) dispositional trust, the psychological disposition or personality trait of an individual to be trusting or not trusting; (ii) learnt trust, an individual's general expectancy to trust or not to trust another individual as a result of experience; and (iii) situational trust which is dependent on the situational cues that modify the expression of generalised tendencies." Dispositional trust depends upon one's disposition or the character trait. Learnt trust develops out of one's experience in dealing with another individual. Situational trust depends on the interaction with individuals in particular situations or circumstances.

The trust between branch manager and the loan officer is an example of a situational trust since both of them are placed in a situation where trusting each other can benefit both of them and not trusting each other can create problems for both of them. There are a number of quantitative and qualitative studies available in the literature, which specifically focuses on the situational trust.

The numerous definitions of trust can be attributed, according to Valez (2000) to "The various ways in which researchers have conceptualised the construct of trust, the phase or type of trust the researcher is studying (individual, group or organisational) and the unit of analysis that serves as foundation of research." The researchers agree upon two critical elements of trust while operationalising trust differently upon their question

of interest. The two core elements of trust which appear to cut across disciplines are: confident expectations and a willingness to be vulnerable. Although all the researchers do not use the same words to describe trust, yet there is consistency in meaning.

At the same time, trust has been studied as a multi-phasic construct, where there are different phases of trust depending on factors such as lens of relationships. Therefore studies on trust can also be categorised by which phase a researcher has focused and on type of trust the researcher is studying, both of which influence the conceptualisation and definition utilised.

According to Valez (2000) the study of trust requires a multi-level perspective and flexibility in understanding the concept of trust because trust is considered a complex phenomenon by them which can manifests itself at various levels. Trust can occur at the levels of individual, group and institutions. Trust can occur within an organisation between individuals in that organisation and also between the organisations. Each of these forms of trust has different causes and outcomes for the people or organisations involved in trust. Rousseau et al. (1998), suggest that researchers should separate trust at various units of analysis rather than mixing micro-level trust and macro-level issues within same study. They suggest that research on trust has explored various levels of trust (e.g. individual, group, institutional) trust both within and between organisations and various causal roles of trust (e.g. trust as cause and outcomes and moderator)

There are many definitions available in the literature. The common element of these definitions, as agreed by researchers can be shortlisted to confident expectations and willingness to be vulnerable (Valez, 2000). Since there is no common definition of trust in the literature and trust depends on the situational context, it is important to discuss the types of trust that are found in the literature. Trust arises between individuals

or organisation sin a relationship and therefore the first step in understanding trust is to understand the forms of relationships that become catalyst for developing trust.

3.7 Risk and relationships

There is a considerable amount of literature dealing with the form of relationships and the risk aspect of the various forms of relationships. Sheppard and Sherman (1998) have studied different forms of relationship and the nature of risk that might be associated with these forms of relationships. They define relational form as, "the type of dependence in a given relationship and relational depth as a structural feature of relationship that is a product of importance, range and a number of points of contact among parties" (Shephard and Sherman, 1998, p. 423)

Sheppard and Sherman (1998) consider dependence as an important aspect of relationship. They defined the relational form as either interdependent or dependent and relational depth as either shallow or deep. Based on the combination of forms and depth as defined above, they have constructed four forms of relationships: (i) shallow-dependence; (ii) shallow-interdependence; (iii) deep-dependence; and (iv) deep-interdependence.

Table 3.2, indicates that every type of relationship has some form of risk associated with it. The risks in a particular form of relationship can be reduced or eliminated if the persons involved in the relationship have the associated qualities of trustworthiness and the relationship is based on those qualities.

Table3.2: Forms of relationship, risk and trustworthiness

Forms of relationship	Risks	Qualities of Trustworthiness
Shallow-dependence	Unreliability Indiscretion	Discretion Reliability, Competence
Deep-dependence	Cheating Abuse Neglect Self-esteem	Integrity Concern Benevolence
Shallow-Interdependence	Poor Coordination	Predictability Consistency
Deep-Interdependence	Mis-anticipation	Foresight Intuition and Empathy

Source: Sheppard and Sherman (1998, p.427), Wintoro, (2000, p.99)

In the context of trust relationship between branch manager and loan officer, the forms of trust are important because the relationship involves mutual expectation and risk taking by both parties. The nature of trust between the branch manager and the loan officer could vary as the forms of relationship vary. Proper understanding of the forms of trustworthiness help in identifying risk-mitigating factors in this relationship and also help in understanding the qualities of trustworthiness required in each player according to the forms of relationship. The identification of the qualities of trustworthiness would help the branch manager in proper selection of the loan officer. This will also help the branch manager in developing the capacity to assess the trustworthiness of the loan officer and the level of risk that the branch manager will be willing to take in the loan officer. Based on the qualities of trustworthiness identified according to the form of relationship, branch manager can look for the qualities in selecting a loan officer for the job.

We will use the Sheppard and Sherman(1998) relational forms to classify the relationship between branch managers and loan officers in a bank branch.

3.7.1 Shallow-Dependence Relationship

Sheppard and Sherman (1998, p.424) define “simple dependence” to occur when one’s outcomes are contingent upon the action of others. Dependence can be unidirectional where one individual is dependent on the other in a trusting relationship. The main risks in a shallow-dependence relationship are: (i) the risk of unreliability of the trusted person; and (ii) the risk of indiscretion on the part of trusted person. The risk of unreliability arises when the trusted person does not behave in the way as expected by the trustor. In the case of a branch manager loan officer relationship, the behaviour of the loan officer may deviate from the behaviour expected by the branch manager. For example, the loan officer may not assess the loan application in the desired manner expected by the branch manager. The behaviour of loan officer may result in a wrong decision about the loan application and consequently increase the risk for the branch manager. The loan officer may not observe an implied understanding with the branch manager and may not deliver the service desired by the branch manager.

The second risk in the shallow dependence relationship is the risk of indiscretion in which the trusted may not share sensitive information with the trustor. For example, the loan officer may not share complete information with the branch manager on the credit status of a particular customer while submitting a report on the creditworthiness of the customer. Similarly, the branch manager may withheld sensitive material information from the loan officer about the previous performance of a customer. This action of the branch manager could result in a wrong credit assessment of the customer by the loan officer. Although the ultimate risk of accepting or denying a credit application may rest with the branch manager, the trust between the two will be affected.

Both the risk of unreliability and indiscretion occur in a shallow dependence relationship. These risks arise when the trustor or the trusted transfer responsibility to the other in their relationship.

The risk of unreliability and indiscretion can be reduced through institutional mechanisms or through calculative or deterrence based mechanisms. These deterrent mechanisms occur where a penalty is imposed on parties who do not abide by an understanding or are performing unreliably. Penalties can be direct or through their effect on reputation of the trusted. Deterrence also occurs when the cost imposed on discontinuing the relationship is more than the short term gain of acting in a distrustful manner. When the relationship is continuing over a period over a time, if the benefit of cheating one time is less than the advantage of long term relationship, the parties to the relationship may not have any incentive to cheat. According to Sheppard and Sherman (1998, p. 428), increasing depth in a relationship serves as a vehicle for inducing trust. The risks in a branch manager – loan officer relationship can be reduced if loan officer has three attributes of trustworthiness – discretion, reliability and competence. In terms of identifying the key elements of trust, Butler and Cantrel (1984) consider integrity, competence and consistency as the key elements of trustworthiness.

The relationship between branch manager and loan officer may also be classified as an example of supervisor and subordinate relationship. Butler and Cantrel (1984) investigated the trust relationship between supervisor and subordinate using two experiments between hypothetical superior and subordinates. In the first experiment one group of the participant acted as subordinate and were asked to answer questions and then decide the extent to which they would trust their superiors. In the second experiment, the same participant acted as superiors and responded about the degree of trust they would place in their hypothetical subordinates. The results of these

experiments indicated that integrity, competence and consistency were the key factors that determine the trust between superiors and subordinates. A problem with such experiments is that they abstract from real life situations. The validity of experiments performed in a laboratory situation may be questioned since experimental situations cannot be replicated in the field.

3.7.2 Shallow Interdependence Relationship

The second type of trust relationship discussed by Sheppard and Sherman (1998) is a shallow interdependence relationship. Trustor and trusted coordinate their behaviour in this relationship, in order to achieve their goals. In a shallow interdependent relationship, all the risks involved in shallow dependent relationship exist. In addition, the risk of poor coordination between trustor and trusted also exists. For instance, ineffective coordination between branch manager and loan officer can result in a poor loan product being offered to a customer or there may be a dilution in terms and conditions stipulated in loan offer document resulting in risk to the bank. As the time in a relationship increases, relationships become interdependent and risk of coordination increases.

The risk of poor coordination in a shallow interdependent relationship can be reduced by collecting information about the other party through communication. For example, branch manager may collect information about loan officer from his or her previous record or from other people in the branch the loan officer might have worked with. In addition, a continuous communication between branch manager and loan officer could help in achieving proper coordination. The branch manager bears the risk of poor coordination in the relationship.

A branch manager gives a mandate to the loan officer to perform all the functions of assessment, information gathering, preparing the credit report and

analysing the loan applications. The final responsibility for accepting or rejecting a loan application or making decisions about varying the terms and conditions of the loan still rests with the branch manager. The loan officer acting on behalf of the branch manager must protect the interest of the branch manager and the bank and coordinate all the loan activities with the branch manager in dealing with customers, head office and other stakeholders. The loan officer has to demonstrate that his or her behaviour in managing the loan portfolio is consistent, predictable and well coordinated with the expectation of the branch manager. The consistency in the management of the loan function could involve interpretation of bank's policies in regard to different borrowers or analysing the information received in regard to applications. The consistency of behaviour on the part of loan officer will lead to prediction of outcomes in regard to decisions on loan applications.

3.7.3 Deep dependence relationship

Sheppard and Sherman (1998, p.425) suggest that in a deep dependence relationship, it becomes difficult for the trustor to monitor the behaviour of trustee as trustee's behaviour is outside the trustor's purview. The trustor faces two risks in deep dependence relationship – the risk of cheating and the risk of neglect by the trustee.

The risk of cheating arises because the trustee has better information than the trustor and the trustee may use that asymmetric information to the disadvantage of the trustor. For example, a loan officer could be keeping information received from customers from the branch manager, doing the loan management work in an efficient way or putting pressure on other branch staff or customers to get an outcome which loan officer thinks good for himself or herself.

The more common risk associated with deep dependence relationship is the risk of neglect by the trustee as the trustor may not be able to observe the action of the

trustee all the times. For example, the loan officer may neglect to document all the information collected on a loan application or may not properly evaluate a loan application according to the policies and practice of the bank.

On the other hand, deep dependence relationship can create the problem of “fate control” by the trustor where the trustor can unilaterally determine the fate of the trustee. This could happen when the branch manager, who is in authority determine the job assignment of loan officer or may not recommend him or her for promotion. The risk of abuse on the part of branch manager could result in the workplace harassment of loan officer.

The loan officer may also face the risk to his or her self esteem from the behaviour of branch manager. The risk of self esteem could occur through adverse feedback received from third parties in the branch on loan officer’s performance or relationship with the branch manager.

The deep dependence relationship assumes that the skills, knowledge and experience of loan officer are higher than that of the branch manager though this may not always be the case. Many branch managers would have acted as loan officers in their careers previously whereas many others might have had different banking experience. However, the loan officer may have better information and knowledge than the branch manager.

In a deep dependence relationship the risk of cheating by the loan officer is a possibility because the loan officer has superior information than the branch manager but may not have more experience in lending than the branch manager. Consequently the loan officer may put up recommendations about the loan applications that may not be in the best interest of the branch manager or the bank. Rather they may serve some personal agenda of the loan officer. In such a situation, a branch manager may look for

specific factors of trustworthiness in the loan officer that may reduce the possibility of cheating, abusing or neglecting behaviour on his or her part. The branch manager may specifically look for qualities such as concern, benevolence, honesty and integrity in the loan officer (Sheppard and Sherman, 1998; Schindler and Thomas, 1993; Posner and Schmidt, 1984; Frost, Simpson and Maughan, 1978).

In a deep dependence relationship, the trustor and trustee can produce trust by invoking a sense of obligation to each other (Sheppard and Sherman, 1998, p.429). For example, a branch manager may make decisions about loan officer without informing anything to the loan officer. In such a case, if the bank's rules and procedures are observed by the branch manager, this may help in reducing the risk for the loan officer. Similarly, if the loan officer properly observes the rules and responsibilities for the conduct of loan management, this would reduce the risk for the branch manager. The branch manager's and loan officer's behaviour is influenced by the mutual sense of obligation in a trusting relationship.

The risk in a deep dependence relationship can also be reduced if there are sanctions in place for an untrustworthy behaviour in a relational network. For example, if the loan officer is not performing the loan management function, according to the expectation of the branch manager, then the obligation to perform the loan management function can be enforced in three ways. The first mechanism is that the loan officer should directly conform to the model of deep dependence relationship and perform according to the expectation. Secondly, people with links to the branch manager and loan officer may modify their relationship with loan officer if he or she is not performing according to the expectation. Branch manager may take certain actions which would compel the loan officer to perform based on the behaviour of third parties. Thirdly, other parties in the branch network or head office of the bank may take certain

actions which may compel the loan officer to perform according to the expectations. This could involve sanctions by the head office or regional Office of the bank if the loan officer does not fulfil his or her obligations. It may become necessary for the regional office or head office of the bank to take these actions which will have the effect of enforcing the obligations. The existence of societal agreements on the value of sustaining a relationship is considered to be important in a deep dependence relationship. Fiske (1990) suggests that a community of people collectively act in a network to reinforce the base of relationship.

Another mechanism through which mutually perceived obligations can be enforced is through the use of psychological contracts. Rousseau (1998) suggests that psychological contract arises when an individual voluntarily assents and accepts certain promises. Psychological contract will involve perceived mutual obligations between branch a manager and loan officer. These contracts will comprise of belief in reciprocal and promised obligations. The violation of psychological contract will generate distrust, dissatisfaction and possible dissolution of relationship (Rousseau, 1998; Wanous et al. 1992). The set of beliefs concerning trustor's perception of trustee's obligations is central to psychological contract. In the context of branch manager-loan officer relationship, the perception of branch manager in regard to the obligation of loan officer is central to trust. Any violation of these beliefs by loan officer would be considered as distrustful and could attract sanctions or deterrent action from the branch manager.

3.7.4 Deep Interdependence relationship

Communication is an essential requirement of a deep interdependent relationship. Communication becomes critical where a trustor and trustee act independently of each other. Due to lack of communication, a situation could arise

where the trustor and trustee inaccurately assume each other's intentions and act in a way which could be detrimental to the interests of the other. Lack of communication also results when trustor and trusted are separated by great distances and are not in a position to communicate with each other due to distance or difficulty of communication. In such a situation, the main risk in a deep interdependence relationship is one of mis-anticipation, the risk of not being able to anticipate other's needs or actions. (Sheppard and Sherman, 1998).

In the context of branch manager-loan officer relationship, the probability of lack of communication is less because both of them work in the same place and the complexity arising due to lack of communication may not arise. Still mis-anticipation of intentions or decisions could arise if instructions by the branch manager are not communicated properly to loan officer or if the loan officer does not communicate relevant information to branch manager.

The risk of mis-anticipation by the trustor or trustee is reduced if both the parties are able to understand the preferences of each other. The trustor and trustee can adopt one another's belief and integrate these beliefs with their own. This will help them in relating to their needs and reduce the risk of mis-anticipation. The integration and adoption of another's values usually develops due to time, proximity, common strategy adopted, incentives adopted in relationship and by negotiations. It may take considerable time to achieve the integration in beliefs and values in a deep interdependent relationship. Once achieved, the integration of beliefs and values help in reducing mis-anticipation arising due to lack of communication. (Sheppard and Sherman, 1998).

In the context of branch manager-loan officer relationship, risk of mis-anticipation could arise in many ways. Branch managers usually have a number of

responsibilities in addition to taking credit decisions. These involve managing personnel in the branch, monitoring payment systems, marketing bank's products and services and participating in meetings with government officials, other bank's officials and clearing house arrangements. The complexity and multiplicity of tasks may prevent branch managers from undertaking regular and speedy communication with the loan officer. The loan officer may therefore not be able to anticipate the intentions of the branch manager on loan issues.

A situation could arise where a loan officer may have a limited perspective on particular loan application based solely on credit policy and procedure of the bank. The branch may have to consider the likely impact of a loan decision on other aspects of bank's business such as deposits, marketing of products or relationship with a customer. This could result in mis-anticipation of branch manager's intentions on a loan application. The loan officer could consider his or her limited perspective whereas branch manager will take a holistic view on loan applications.

Also, the branch manager could lose the ability to evaluate the performance of loan officer, if there is no regular communication between the two. Thus there is a considerable opportunity for risk and misinformation between the two in such a situation. It is therefore desirable that branch manager selects a loan officer who has empathy with customers and the loan officer possesses intuition to anticipate the reaction of the branch manager on relevant issues and has foresight to anticipate problems in the relationships and possible solutions.

3.7.5 The nature of relationship between Branch Manager and Loan officer

The nature of the relationship described above assumes that risk arises as a consequence of dependence in relationship between trustor and trustee. The nature of risk encountered by trustor and trustee will depend on the type of relationship between

the two. Four different types of relationships have been discussed in the literature – shallow dependence relationship, shallow interdependence relationship, deep dependence relationship and deep interdependence relationship. The literature looks at the construct of trust assuming that a necessary antecedent of trust exists. However, the literature does not offer any conclusion on whether risk arises because of trust or is a consequence of trust.

Mayer et al. (1995), suggest that willingness to become vulnerable does not require trust but risk arises when a person engages in the behavioural manifestation of trust, requiring actually taking the risk. However, the literature does not suggest if two persons will develop trust if they are exposed to a risky environment and are dependent on each other due to risk created by external environment.

The relationship between the branch manager and the loan officer is such that both are in a situation where they are exposed to external risk. In order to reduce the mutual risk, they may engage in a trusting behaviour. In their case risk does not arise only because of their action in trusting each other but risk is already present and trusting behaviour helps in reducing the external risk. But trusting behaviour may also increase the risk due to mutual dependence on one party, if the other party does not fulfil their responsibility in trusting relationship. There are two elements of risk in relationship of trust between branch manager and loan officer. One is the risk due the external environment which affects both the branch manager and the loan officer. Second is that the risk arising out of trust relationship and mutual dependence in trusting relationship.

Out of the four forms of relationships discussed above – shallow dependence, shallow interdependence, deep dependence and deep interdependence, the relationship between the branch manager and the loan officer is close to deep dependence relationship although it may have elements of other three forms of relationships.

For example, in a deep dependence relationship, it is difficult for the trustor to monitor the behaviour of trustee all the time. Similarly branch manager is unable to monitor the behaviour of loan officer all the time as he or she may have other tasks to attend such as personnel management in the branch, marketing of product and services, management of payment systems. Unlike in a shallow-dependence relationship, the relationship between the branch manager and the loan officer is one of deep dependence because both branch manager and loan officer face the risk due to their trusting relationship and both are exposed to risk arising due to external environment. Similarly the relationship cannot be described as a deep interdependent relationship because a deep interdependent relationship has the risk of a lack of communication. The branch manager and the loan officer work in the same work place and communicate on a regular basis. Therefore, the problem of lack of communication may not be large.

The risks faced by the branch manager and the loan officer are similar to those in a deep dependence relationship such as risk of cheating and risk of neglect faced by the branch manager due to the actions of the loan officer or the problem of fate control or risk of self esteem faced by the loan officer due to actions of the branch manager. The risk of cheating could arise when a loan officer has better information than branch manager and he or she may not properly communicate that information to branch manager. The risk of neglect may arise when a loan officer fails to document all the information collected on a loan application or may not evaluate a loan application according to policy and procedures of the bank. The problem of fate control arises when the branch manager, who is in authority determines the jobs assignment of the loan officer. The risk of abuse could result in workplace harassment of the loan officer. The risk of self esteem could occur through adverse feedback received from third parties in the branch on the loan officer's performance or relationship with the branch manager.

3.8 Trust in Organisations

Mayer et al. (1995) have given a number of reasons as to why the trust in an organisation setting, with its emphasis on behaviour is important. Other authors who have studied trust in organisations include Lewicki et al. (1996), Deutsch (1958) and Read (1962). In the context of relationship between the branch manager and loan officer of a bank, the issue of organisational trust is important because both the branch manager and loan officer are part of a wider organisation and take decision and act on behalf of the bank they work for when they interact with customers, senior managers and colleagues. The trust between the two is linked to organisational factors and result in organisational effectiveness. The trust between branch manager and loan officer is a necessary component of the risk management at the branch level. One of the components of organisational trust is the advancement in technology. With advances in technology, subordinates and other employees become more empowered in the work place. The control mechanisms are reduced and direct observation of the employees becomes less common, (Costa et al, 2007). In such a situation, trust between the loan officer and branch manager is even more important as important decisions may become difficult or impractical to observe immediately. This situation has the potential to increase the risk for the bank and the players involved, (Bijlsma and Koopman, 2003).

3.9 The supervisor- subordinate trust

One important context of the relationship between branch manager and loan officer is the supervisor subordinate trust. Since most of the goals of the banks are implemented at a branch level, the key players in the lending function involved at the branch level - branch manager and loan officer contribute immensely to the organisational goals of the banks. Although within a bank, key goals are set at the top level, these goals filter down to the unit level and are ultimately accomplished at the

unit level which is a bank branch. It is therefore important that branch managers are aligned with the wider organisational goal and with them the loan officer also have to align with the organisational goal and contribute to these goals. The success of these organisational goals will depend on the effectiveness of the relationship between the key players and the unit level – branch manager and loan officer at the bank branch. The relationship between branch manager and the loan officer is critical from that perspective. The branch manager can be effective in risk management and credit management only if he or she achieve organisational goals through his people. The branch manager is dependent upon the performance of loan officer who reports to him or her. The branch manager's effectiveness is contingent upon the effectiveness and ability to gain trust of the subordinate - the loan officer in our example. The loan officer is dependent upon the branch manager – who is his or her supervisor for promotions, resources, feedback and other type of support. The relationship between the two can be called a relationship of mutual dependence, which necessarily demands trust. The nature of relationship is, however, not just a social exchange relationship but involve relationship of economic exchange as well. Valez(2000) has termed the supervisor-subordinate as a relationship of social exchange only. She argues that although supervisor subordinate relationship may have extrinsic or intrinsic benefits, these benefits may occur with or without an economic value (information, advice, social support). In her opinion the existence of economic benefits in this relationship is uncertain. Secondly the benefits in social exchange are voluntary in nature whereas the benefits in economic exchanges are negotiated or discussed prior to the activity. The exchange of benefits is uncertain with the frequency increases as the relationship matures. In the context of the branch manager loan officer relationship, although a supervisor subordinate relationship exists, this relationship may also involve the

economic benefits to both of them or one of them. For example, if the organisational goals are achieved at the branch level then both branch manager and loan officer may get bonus and other economic benefits which are usually explicitly stated. In the event of non-achievement of goals or the increase in risk (for example, bad debts or frauds) both may suffer economic consequences or losses to their remunerations. As such economic consequences are important element of this relationship.

3.10 Trust in Business Performance

One of the important questions in regard to trust is whether trust improves business performance. Recent literature suggests that trust relations help in improving business performance in many ways.

Brusco (1986), Smitka (1991) and Edelenbos et. al (2007) have identified trust as an important component of business partnership, strategic alliances in business and in developing network between small firms. Fukuyama (1995) has found the evidence of trust in the work place and business culture as contributing to the industrial success of Japan and Germany. Sako (1992) attributes the maintenance of consistently high quality to high trust production systems. Barney and Hensen (1994) work on trust between organisations focuses on creating and maintaining competitive advantage and enhancing business performance through trust.

3.11 Trust in Banking

There is not much literature on trust in banking. Most of the literature on lending relationships that includes trust focuses on lending relationship between bank and the borrowing customer. The first study by Lehmann et al. (2001) in this regard provides an empirical analysis of bank lending to small and medium-sized firm in Germany. Their study provides evidence that loan rates do not depend on the duration of the lending relationship. The availability and terms of loans are not only influenced by firm

characteristics and credit risk variables but also by social interaction between loan officer and firm manager. This social interaction may indicate mutual trust as advantageous to both borrower and the bank. Their findings represent facts about the German banking system. Furthermore, the variables used by them are not able to capture the social dimension of a lending relationship. There are other studies on lending relationships do not focus on trust between various players in a lending situation but deal with other elements of this relationship. For example, Mayer's study (1988) suggests that countries like Germany with a bank based financial system have experienced higher economic growth than countries with a more advanced and competitive financial markets. Close ties between the banks and the corporate sector enhance the availability and reduce the costs of loans to the firm. Petersen and Rajan (1994) show that the bilateral credit relationship between a bank and its customer is considered as enduring when both parties have dealt with each other for some time and expect to continue to do so in future. Williamson (1985) is of the opinion that bank-borrower transactions are not standardized. The signing of a loan contract does not represent an end of relationship between the bank and the borrower. Many events could occur which can alter the bank's cost of providing the credit as well as the borrower's willingness to repay the loan. Von Thadden (2004) suggests that the ending of relationships by the borrower can convey a negative signal about bank's quality to outside parties. Duffey and Homel (1999) find that small and medium sized enterprises are of vital importance for banks, especially in Germany, despite the high cost of gathering information about their creditworthiness. Sjorgen (1994) has provided a theoretical framework to study the merits of lending relationship using neo-institutional theory. Their study provides a framework for change of perspective from neoclassical interest in the quantitative, strictly economic aspect of the capital market to those of a

qualitative, organisational and social nature of the relationships. The US studies of Blackwell and Winters, (1997); Berger and Udell, 1995; Petersen and Rajan, 1994 on relationship lending focus on effects of various transaction variables as the duration of firm's relationship with the bank or banks increases. Burghof (2000) German study on relationship lending of German banks suggest that German banks are more concerned about the behaviour of the borrowing firm's insiders in making their credit assessment about the firm as compared to its investment program.

The studies of Lehmann et al. (2001), Mayer (1988) and Burghoff (2000) suggest that the continuing relationship between the bank and the borrowing customer is beneficial to the bank and the customer alike and that the quantitative variables used by banks in their credit evaluation process are not enough in credit risk management. Banks have to look into social interaction between the bank and the borrower in order to reduce the credit risk for banks.

Ferrary (2003) has analysed the decision making process of granting credits in bank and raised questions about the nature and role of trust in economic situations. From the analysis of actual practice of loans granted in banks in France he conclude that the creation of trust relationship is not about the altruism of the economic agents but that trust relationships correspond to a certain kind of optimisation. The bank's counsellor grants credit because establishing friendly relationships with client allows the bank to gather information to reduce moral hazard that such a decision would otherwise represent to the creditor. Trust based on trust relationships do not exclude the economic rationality of the contractors but presupposes another kind of economic rationality. This rationality is based on a different temporality and different social space. The financial counsellor does not want to make a one-time profitable transaction with

an individual but instead seeks to create a profitable long-term relationship with a social group.

Ferrary (2003) has used the notion of social capital, social networks and trust to define this framework for analysing lending activities. By analysing the process involved in the financing of Parisian Breweries in 1980s, he tried to show that information gathered through social networks allows better risk evaluation than an instrumental evaluation used by banks. Ferrary concludes that the so called scientific methods of risk evaluation and institutional devices intended to warn of risks of the borrowers' failure are insufficient to efficiently reduce the risks taken by bankers in their lending activities. It is very difficult for a banker to anticipate every possible situation in future and incorporate them into a lending contract. Even if a banker takes all the precautions the lending contract will remain incomplete. The risk induced by incompleteness of contracts can be reduced by developing social bonds between the financial counsellors and the borrowers. The social bonds help in developing a relationship between the lending bank and borrower. This interpersonal relationship between banks financial counsellors help in providing access to information for the bank's financial counsellors. In a strictly professional relationship the financial counsellor will not have access to information which is gained through a trusting relationship. If the bank facilitates trades based on information gained through trusting relationship the bank reduce its risk by incorporating information in lending contracts. The relationship between financial counsellors and borrower also help in creating positive expectation about the lending transactions by the borrower.

In Ferrary's opinion the financial counsellor should use a social risk evaluation to reduce the inherent risk and uncertainty in the lending business. Information obtained through informal relationships is better and can help in reducing risk in lending. This

can be achieved by bank's financial counsellor through developing informal relationships in the community which go far beyond the strictly professional relationships. If a financial counsellor is able to achieve social integration in the community, they can accumulate social capital which helps in obtaining better information about borrowers and hence helps in reducing risk of lending for banks.

The relationship between the borrower and the financial counsellor should not be assumed to be an altruistic relationship. There is an economic rationale in this relationship because the relationship is based on trust. Trust helps in gathering superior information. This superior information helps in optimising decision making process for the bank as the information can be used in optimising the decision making process for the bank and the information can be incorporated in lending contracts and decisions. This relationship is however not a one time relationship but an ongoing relationship. Ongoing relationship leads to not just one transaction but a number of trade transactions between the borrower and the bank resulting in additional business and income for the bank. A continuous relationship, however, has cost elements of maintaining a relationship. The bank's financial counsellor will have to invest time and effort in maintaining the relationship. This cost however has benefits. It can help in reducing contracting costs and incidence of bad loans in future through access to superior information obtained through social networks.

There are certain conditions attached to the development of trust bond between the bank and the community. The first condition is that banker has to be close to the community. The physical nearness with a borrower's community helps in proximity to the borrower and close contact can be developed by the banker with the borrower. The physical proximity can lead to obtaining of accounting information, market information and other information relevant to lending decisions. The bank will also be able to

interpret that information correctly because as a part of community, the banker will be able to understand the borrower's point of view and interpret the information according to the custom and practice of community.

The second condition set out by Ferrary for developing a social relationship between the lender and the borrower is that the bank should have a long term perspective on the relationship. A long term relationship results in having regular information on the borrower and reduces the cost of obtaining such information. Sometimes the borrower may volunteer information about their business conduct if they place trust in bank's financial counsellor with the expectation that the bank will provide them with better facilities and terms of trade if there is trust between the bank and the borrower. The long contact between the bank and the borrower results in more trust between the two and better information exchange between the two. Therefore, Ferrary emphasises the need for modifying the professional relationship between the bank and the borrower. This relationship if based on informal and friendly exchange can be beneficial to both bank and the borrower. But bank's financial counsellors are required to develop qualities of developing long term relationships. Without the friendly and informal approach to borrowers, the relationship of trust is hard to establish and sustain.

Ferrary's paper questions the wisdom of using the conventional economical rationality and scientific methods of risk evaluation based on quantitative risk evaluation models. He advocates the utility of trust-based relationship in reducing the uncertainty in risk evaluation by banks. He argues that the trust relationship is also a form of economic rationality, not altruism. Banks and borrowers are able to reduce their cost of operation by having a trusting relationship. The use of trust has helped the banks in France to reduce the credit risk in lending. However, Ferrary's paper is based on the lending relationship between bank's financial advisor and their customers. The present

study differ from the study of Ferrary in that the present study focuses on trust relationship between branch manager and loan officer of bank branches, which is another important relationship in the lending decision by banks. Ferrary's study recognises that banks operate in a risky environment when they lend money and recognise external risk as a part of bank's operations. However, Ferrary has neither proposed any model of trust relationship in banking context nor identified trust characteristics that are required by actors in a trusting relationship in a banking environment. Their study focuses on the trust relationship between financial advisor and the customer which is only one dimension of the relationship. This study focuses on the other important dimension of trust relationship – relationship between branch manager and loan officer – which is more important from the perspective of the bank because these actors in lending relationship have a continuous input into the credit management of the bank and consequently play much more important part in credit risk management as compared to customers. Ferrary's study is also a limited study in the context of the French banks. While Ferrary's study raises culture as an issue in a trust relationship it does not deal with trust as an important factor in the trust relationship. On the other hand the study by Lehmann (2001) which focus on German banks and identified culture as an important element of trust that are specific for a trusting relationship in German banks. It is very clear from the studies of Ferrary (2003) and Lehmann (2001) that trust in banking relationship depends on the context and culture of players involved in trusting relationship. The way the actors develop their relationship, change with change in context and culture. Culture therefore needs to be incorporated as an important factor in trust between branch manager and loan officer and also needs to be included in a trust model.

3.12 Trust factors

In order to develop trust, the trustee and the trusted need to have certain characteristics. These characteristics have an impact on the trustworthiness of an individual. The review of literature suggests that these factors of trust include – similarity, ability, benevolence, behavioural integrity, behavioural consistency, sharing and delegation of control, communication, job level and ethnicity. Each of these factors is discussed below.

3.12.1 Similarity

Numerous researchers have discussed the impact of similarity on willingness to trust. (Creed and Miles, 1996; McAllister, 1995). Individuals are more willing to trust other individuals who exhibit similar characteristics to their own. A branch manager of a bank will be more willing to trust a loan officer whom he or she perceives to have similar characteristics as his or her own. Lehmann (1979) suggests that in the initial stages of a relationship individuals prefer to assume similarity because operating from the position of a trust is lot easier than from the position of distrust in the initial stages of a relationship. Starting with initial distrust could make the development of trust very difficult later on as individuals may get biased. Similarity can exist in a number of ways- such as similarity of race, religion, culture, language or personal characteristics as approach to work.

3.12.2 Ability or knowledge

Ability or competence is one of the essential characteristics for the development of trust in a risky situation as that of lending in banking environment. Since lending involves taking risk, assumption of risk without the competence of trusted person can increase the risk. Mayer et al. (1995, p. 717) define ability as “the group of skills and characteristics that enable a party to have influence within some specific domain”.

Skills related to the job performance, is an essential component of the ability. Many authors have studied the influence of ability upon trust such as Cook and Wall (1980), Deutsch, 1960, Jones et al. (1975). Wintoro (2000) has studied the importance of ability on trust developed in financial markets. Some authors have used the term competence instead of ability although both would take into consideration the skills required in job performance (Butler, 1991: Rosen and Jerdee, 1977).

The characteristic of ability in subordinates has been studied in different contexts. For example, Butler and Cantrell (1984) in their study involving undergraduate management students, investigated five determinants of dyadic trust, one of which included competence, by asking respondents to rate the level of trusts they would have in a variety of hypothetical bosses and subordinates. Butler and Cantrell conducted two experiments. The first experiment explored whether respondents would trust a hypothetical boss and the second experiment utilising similar methodology dealt with trust in hypothetical subordinates. Across both the experiments they found that the competence of subordinates was a determining factor of the level of trust that would be placed in individual. The competence was found to be most important factor in determining the trust. But laboratory experiments would not present the same level of risk as the actual job situation.

Wintoro (2000) has examined the characteristics that help in development of trust by studying the extent to which the Indonesian trustees of pension funds would be willing to trust the investment fund managers. The ability in this context was defined to be the effort of Indonesian fund manager in improving the performance or maintaining the performance of the fund. He concluded that the ability of the investment manager is important to the trustee because the reason for trustee to hire a fund manager is to receive benefits from the relationship in the form of return on investment and transfer of

knowledge. These benefits could be realised in the investment manager has a great degree of ability in active investment management. The ability was further expressed by the trustor (Indonesian Pension Fund Trustees) as being the expertise, reputation, performance, knowledge and experience of the trusted (fund manager). Their investigations were limited by the fact that the ability could only be measured by the past record of the performance of investment manager, investment qualifications, the number of years of investment experience, the information used to support his or her decision, and recommendations of other trustees. Wintoro's findings were the confirmation of other studies of Swan, Trawick and Silva (1985), Moorman, Deshpande and Zaltman (1993) and Stewart (1998).

In the context of branch manager-loan officer relationship, ability would mean knowledge and competence on how the loan function is performed. A loan officer would be required to have knowledge about the various policies and procedures of the bank, analytical techniques, legal knowledge, knowledge about people, place, customers etc. In the context of branch manager, it would also include ability to take decisions, resolve conflicts and handle unforeseen situations.

3.12.3 Benevolence

Mayer et al. (1995) has defined the benevolence as the extent to which a trusted is believed to want to do good to the trustee. Benevolence is the good in addition to the profit motive that needs to be done or that the trusted is inclined to do. It suggests that the trusted has some specific attachment to the trustee. A person who is viewed as benevolent is seen as more trustworthy than others. There is a positive intent attached to the benevolence. According to Mayer benevolence is an integral part of trust. Other researchers McAllister (1995), Mishra (1996) have divided the act of benevolence into

three actions – being considerate and sensitive to the needs of others including employees, protecting the interest of others and not exploiting the interest of others. A manager is likely to be considered benevolent when they do not exploit their subordinates to further their own interest, protect their subordinates and remain considerate and sensitive to the needs of their subordinates.

According to Valez (2000) when managers engage in these actions, they are perceived to be loyal and benevolent. Benevolence from this perspective highlights both confident expectations and willingness to take risks. In his study of Indonesian fund managers, Wintoro (2000) found benevolence to be synonymous with concern with returns on investments, concern with providing good investment services, the willingness to transfer knowledge, concern with cost of transactions paid by the pension fund trustee and avoiding the possibility of using the information for personal gains. The trustee could only measure the benevolence of investment managers based on the number and quality of investment services provided, the investment team of the investment manager and other trustee's recommendations. For the purpose of this study, the definition of benevolence provided by Valez (2000) in regard to the action of managers in protecting the interest of subordinates, not exploiting the subordinates to further their own interest and remaining considerate and sensitive to the need of their subordinate is more appropriate and will be used because the relationship between the branch manager and loan officer is also a subordinate-supervisor relationship unlike an investment manager- pension fund trustee relationship.

3.12.4 Behavioural Integrity

Integrity is defined as the extent to which the manager acts consistently with what he says and adheres to the agreements. Behavioural integrity has been identified as one of the five categories of behaviour that influence employees' perception of

managerial trustworthiness. Mayer et al. (1995, p.719) suggest that such issues as the consistencies of the past action, credible communication, about trustees from other parties, belief the trustee has a strong sense of justice and the extent to which the parties' actions are congruent with his or her words that affect the degree to which the party is judged to have integrity (p.719). A number of researchers have studied the behavioural integrity as antecedent of trust (Butler 1991; Ring and devanden, 1992; Mayer et al. 1995) and found it to be related to trust. The studies by Gabarro (1978), Butler and Cantrel (1984), Schindler and Thomas (1994) and Shaw (1997) have concluded that a person gains trust from others by explaining honestly and acting with integrity. A person who is consistently incompetent and dishonest will not be trusted. Wintoro (2000) in his study has concluded that integrity of investment manager is important for the trustee of small pension funds because the aim of the trustee is to hire an investment manager to whom a mandate can be given with confidence to manage the trustee' investment policy. Only an investment manager with high sense of integrity can accomplish the mandate.

3.12.5 Behavioural consistency

According to Valez (2000) behavioural consistency is defined as the reliability or predictability of another's behaviour and aligns perfectly with Shapiro et al. (1992) knowledge-based trust. Once a supervisor or subordinate has developed calculus-based trust, the next level of trust, knowledge based trust focus on behavioural consistency. In order to achieve this trust, the trustor must gather information in order to predict the trustee's behaviour accurately. In a supervisor-subordinate relationship both parties over time begin looking for common patterns in behaviour. This information is used to make specific prediction about future behaviour and gauge the amount of risk they are willing

to take within their predictions. Behavioural consistency has shown to be related to an employee's perception of managerial trustworthiness (Butler, 1991; Gabarro, 1978).

3.12.6 Communication

Nothing is more important to employees than the honesty of the supervisor. Calderon (2002) considers this as the reason as to why communication has become so vital to creation and maintenance of trust. When supervisors provide accurate information to employees, explain their decisions clearly to them and are open to feedback or any other communication, in that case employees are most likely to trust the supervisor.

3.12.7 Culture

Rosen and Jerdee (1977) have studied job levels, minority status as factors that impact managers perception of trustworthiness. In their study they found that respondents rated employees with lower job levels and minority status as less trustful. While job levels can be interpreted as an issue of competence or ability, dealing with minority employees is an issue of culture. In the context of a business environment, culture is a very important issue, given the history, geography and social structure of India. For the purpose of this thesis, culture needs to be examined as a separate and important factor in trust relation between various parties doing business in India.

In the context of discussion on Indian economy, cultural aspects play an important part. In his study of South Indian I.T. clusters, Tauebe (2004), found that culture is an essential part of social networks and that in the context of India, economic relationships should be looked into using not just economic and geographical factors but cultural factors as well. He found the evidence that software industry in South India is clearly dominated by South Indian Brahmins, which explains the spatial concentration of this industry. They regard caste in the sense of varnas, and ethnicity as important attributes

for the growth of software industry in India. According to Dorner et al. (1996), the importance of culture and other social factors that are non-economic in nature but influence the economy and are influenced by the later, is not merely to impute differences in economic performances to the cultural factors but to integrate culture as a variable in theoretical models. Sen (2001) sees culture as “an end in itself that is good which should be preserved as large part of goals that should be reached as part of development. Secondly, it is also means to development both directly through cultural investment and indirectly through values and norms working in the society. Tauebe (2004) regard that the often-cited values, beliefs, traditions, norms is rarely observable and hence difficult to measure. The more visible manifestation of culture are actions, behaviour and actual social practices which are usually influenced through norms and values. Siehl and Singh (2004), in their case study conclude that in Indian context, given the great diversity, it is important to get a good grasp of culture – company cultures as well as national culture and subcultures. According to them an effective leader in India has to take into account the cultural differences due to diversity in religion, caste, language before putting together a team. It is indicative of the value that is attached to knowing culture in the Indian context. Given that knowing culture is an important aspect of business relationship and also in the development of trust, the next questions is what are the components of culture that are important in development of trust? Tauebe (2004) regard caste and ethnicity as essential part of culture. Siehl and Singh (2004) regard language and religion also as essential parts of Indian culture. Falkenberg and Glamheden (2004) regard nurturance and high degree of personal involvement as Indian values which are in conflict with objectivity and personal detachment observed in western business models. Rishi (2002) in his study have found that values of affiliation, personal concern, dependence and personal warmth of nurturant leadership can create

climate of trust and understanding between people in business in India. Their results strongly support culture-led leadership styles in India. It is therefore necessary that culture need to be incorporated as a determining factor in any trust relationship involving branch manager and loan officers of India because business conditions and the way in which banking business is done in India is considerably different from the way in which banking business is done in West.

3.13 Roles within the relationship

The relationship between two individuals depends on the status of the two individuals and not many studies focus on the trust relation between two individuals when their relative status is different. In a branch manager-loan officer relationship, the relative status of two individuals will certainly have a bearing on the trust as each one of them perceive it to be. In a cultural setting as that of India, this dimension of relative status will have lot of influence on the Branch manager-Loan officer relationship because of values and beliefs associated with relative status and the power situation between the two. The loan officer is a subordinate and as a subordinate his or her behaviour in trust relationship will be very different from that of the branch manager. Subordinates in Indian context have to demonstrate greater degree of loyalty, values of affiliation and respect towards the superior- branch manager in this case. It is also expected that branch manager as a superior will have a nurturing attitude towards loan officer. Communication between the two is also expected to be at a different level compared to their western counterparts. Indian cultural values, norms and conditions such as caste and ethnicity could influence the way in which communication is done between branch manager and loan officer.

Gabarro et al. (1978) found in their study that there were differences in the antecedent of supervisor trust versus subordinate trust. The most important factors for a

supervisor's trust in subordinate include behavioural integrity, competence and behavioural consistency whereas the most important factors for a subordinate trust in a supervisor included behaviour integrity, loyalty and openness. Butler and Cantrell (1984) found the most important factors as competence, integrity and loyalty and openness irrespective of the status. Butler et al.'s study was limited by the fact that they used students, who projected themselves as both subordinates and supervisor. Velez (2000) in her study have found that correlates of trust depend on the direction of the trust. Variables that relate to trust from a subordinate to supervisor will differ from the variables from a subordinate to supervisor trust in addition to the type of trust. In the present context the correlates of trust from Branch manager to loan officer could be different than from the correlates of trust in case of loan officer to branch manager trust.

Reciprocity has been found as a key factor in trust relationship between a supervisor and subordinate. Butler (1993) have found that strongest predictor of a boss' trust in the secretary was the secretary's trust in the boss. Their findings overshadow the impact of relationship, personality traits and other' needs concerning control. Velez (2000) have arrived at similar conclusions in regard to the reciprocity. It may not always be possible in India context to have the same level of reciprocity as in the west. The behaviour of subordinate towards superior needs to be culturally acceptable.

3.14 Trust Model

Most models on trust assume that risk is required for trust to influence choice and behaviour (Lewis & Weigert 1985). Mayer, Davis and Schoorman (1995) have proposed a theoretical model of trust in which risk is regarded as an essential component of trust. According to these authors "there is no risk in the willingness to be vulnerable (i.e. to trust) but risk is inherent in the behaviour manifestation of the willingness to be vulnerable. One does not need to risk anything in order to trust;

however, one must take a risk in order to engage in trusting action (Mayer et al. 1995, p. 724). A number of aspects of trust are highlighted by this statement. First is that trust and trusting behaviour are not the same thing. Trusting behaviour arises as a consequence of the willingness to trust. Secondly, there is no risk in trusting someone unless the trust leads to trusting action. There is no risk in trust but the assumption of risk arises as a consequence of trusting behaviour which leads to trusting action. Trust will lead to risk taking in a relationship. The higher the trust in a relationship the more is the assumption of perceived risk. But trust also helps in reducing risk. Shemwell et al. (1994) have found that the trusting relationship helps in reducing the level of perceived risk in a relationship. Their study of physicians, automobile mechanics and hairstylists provide the evidence that higher level of trust leads to continuation of relationship. Risk for the purpose of trusting relationship is defined by Sitkin and Roth (1993) as “the extent to which there is uncertainty about whether potentially significant or disappointing outcomes of decision will be realised.’ In their opinion risk exists due to outcome uncertainty, outcome expectation and outcome potential. It is, however, necessary to differentiate between the risk due to external environment to which actors in a trusting relationship are exposed compared to risk arising due to a trust relationship. In a lending situation, both branch manager and loan officer are exposed to risk from external parties when they loan to customers. This risk from external parties occurs irrespective of whether there is a trusting relationship between branch manager and loan officer. The previous models of trust do not incorporate this element of risk, which is specific only to lending situation or any other type of risk due to financial environment. However, this financial risk is important part of trust because the trusting parties are induced to develop a trusting relationship in order to reduce this financial risk. The

present model on trust considers this financial risk as an important part of the trust model.

The second important part of the trust model is culture. Culture is an important determinant of trusting relationship in Indian context. However, the cultural aspects are not limited to India alone. Each country has its own culture which finds its place in the business practice. While the culture is different in different countries, cultural influences the relationships between people, in business situations as well. Therefore, any trust model should include culture as an important determining factor of trust. The present model incorporates culture and financial risk as important parts of the trust model.

The model of Mayer, Davis and Schoorman (1995) assume trust to occur between at least two parties. One is the trustor and the other trusted – in the present situation it would mean branch manager and loan officer. Their model has three key concepts – the parties involved in the trust have propensity to trust each other, trust is based on certain key characteristics of each of the parties involved and trust leads to risk in relationship.

3.15 Stages of Trust Development

The literature suggests that trust develops in stages. According to Lewicki and Bunker (1995) the relationship develops in three stages of trust – calculus based trust, knowledge based trust and identification based trust. Not every relationship is expected to reach the identification based trust. Some relationships do not go beyond the first stage of calculus based trust or the second stage of knowledge based trust.

In order for the parties to go from first stage of calculus based trust to knowledge based trust and beyond, it is necessary that trustor and trusted begin their trust relationship and confirm their trust in each other. Only when they go beyond calculus based trust where rewards and threat system operate, they are in a position to

continue their relationship and develop sufficient knowledge and understanding about each other that would help them in predicting the behaviour of the other. If the parties continue to remain in the relationship sufficiently long and have gained sufficient information about each other and have not done anything that could result in the discontinuation of trusting relationship, their relationship may continue to the third stage which is identification based trust. This is the stage where they have developed sufficient knowledge about each other to enable them to identify themselves with other's needs, goals, preferences and priorities. In this stage, they adopt the goals, needs and preferences of the other as their own and broaden the relationship by delegating a part of their own activities or authority to the other. In a work situation, it might be difficult for a person to go beyond knowledge based trust because of the inherent limitation of working relationships. In work situation, people may not have time or desire to develop closer relationship with the other unless there is an absolute need for developing trusting relationship.

The stages of trust formation discussed above are not specific to any particular situation but may be descriptive of any trusting relationship. However, the relationship between branch manager and loan officer is a very specific relationship in a very specific work situation. Although the branch manager and the loan officer, at times, may volunteer to start a particular relationship, it is also likely in most cases that both of them are thrown into the relationship involuntarily. A loan officer may or may not have a choice in selecting a particular branch manager but a branch manager may occasionally have the choice in selecting a loan officer from among the officers available to him/her at the branch. However, not all the branch managers have that kind of choice as the head office of the bank may appoint a loan officer without consulting a branch manager, in which case a branch manager may not have any choice at all. In

such a situation, it would be interesting to observe the development of trust relationship between the branch manager and the loan officer because both the players are thrown into a trust relationship involuntarily and this relationship is risky relationship.

Lewicki and Bunker (1996) have proposed that trust development occurs through several stages and propose three stages of trust development

1. Calculus based trust
2. Knowledge based trust
3. Identification based trust

Some authors have also proposed deterrence based trust as another stage of trust development. According to Lewicki and Bunker (1996), the three stages assume that the parties are building a new relationship, there is no past experience of relationship between them and the parties are uncertain about future longevity of the relationship. Trust develops gradually as the parties move from one stage to another.

3.15.1 Calculus based trust

This is the first stage of trust when the trustor and the trusted start a relationship. Calculation based trust involves a rational calculation of the costs and benefits of trust and the probability of detection in the case of cheating allows the parties to develop appropriate safeguards to protect themselves. (Husted, 1998). This type of trust involves “economic calculations whose value is derived by determining the outcomes result from creating and sustaining the relationship relative to the cost of maintaining or severing it.” (Lewicki and Bunker, 1996, p. 120).

In a calculus based trust situation, the trustor and trusted observe market oriented economic calculations. The relationship in this case depends on the cost and benefits of the relationship. If the cost is more than the benefits of relationship then the relationship may get severed. But if the benefits are more than the cost of the

relationship, the relationship could continue in future. This relationship is also based on a threat and reward system, where a trustor may be able to reward a trusted for observing the appropriate behaviour contributing towards trust. But if the trust is violated then the trustor would be able to use some kind of threat against trusted imposing certain penalty on the trusted.

This type of trust is very relevant to a superior subordinate relationship where a supervisor should be able to impose certain penalty on a subordinate for violating the trust and if a subordinate observe the trust relationship the supervisor should be able to offer some reward for the continuation of relationship. Since the relationship between the branch manager and a loan officer is also a superior subordinate relationship, the initial relationship between the two is similar to calculus based trust. The branch manager is able to impose some penalty on the loan officer if the loan officer violates branch manager's trust and the branch manager is able to offer a reward to loan officer for observing the trust. However, this system of reward and threat may not work well in all situations. For example, the loan officer may not be able to impose any penalty on the branch manager if the branch manager violates the trust nor he/she may be able to reward the branch manager if the branch manager observes the trust.

According to Lewicki and Bunker (1995), in order that deterrence for violation of trust could be effective, it is necessary that certain conditions exist in the observance of trust relationship. The first condition is that both the trusted and the trustor should value the advantages of the benefits in the relationship as more than the loss due to discontinuation of the relationship. If the benefits of continuing a relationship are less than the costs incurred by each party in breaking the relationship then there is no motivation for either party to continue in that relationship and a breakdown of trust may occur. The second condition is that the trustor should be in a position to monitor

effectively the behaviour of the trusted. If the behaviour of the trusted is not monitored properly, the trustor may not be able to know if a violation of trust has occurred and consequently the deterrence based mechanism of threat and reward cannot be used effectively.

In the case of a branch manager loan officer relationship the branch manager as the supervisor of the loan officer is able to monitor the behaviour of the loan officer effectively. If the loan officer violates the trust of the branch manager in any way, the branch manager could use some threats or deterrence on loan officer. Whether any deterrent action will be effective in influencing the behaviour of the loan officer, would depend on the authority and ability of the branch manager to use the deterrent action.

Violations in calculus based trust can result in renegotiation of the contract to better ensure the outcomes. If the trust is broken then the other party may seek another relationship. This type of trust is observed in new relationships where the parties are careful about the degree of risk involved in the relationship and want to provide safeguards to protect themselves. In the case of a branch manager loan officer relationship, renegotiation of contract may not always be feasible option unless the loan officer is assigned to another department or the branch. In such an event the branch manager will have to select another loan officer and start rebuilding the trust relationship all over again.

3.15.2 Knowledge based Trust

This is the second stage of trust where the trustor and trusted have remained in a trust relationship for some time and had the opportunity to observe each other's behaviour and develop some knowledge about each other. This development of knowledge about each other's behaviour helps in predicting how the other person will behave in the relationship. Knowledge based trust is developed through availability of

information about each other's behaviour and is based on previous relationship. Unlike calculus based trust which relies on deterrence or a system of threat and reward, knowledge based trust relies on information and knowledge about the other person. The information is obtained and knowledge developed over a period of time over which the trustor and trusted interact with each other, observe each other and form an opinion about what to expect from each other. This trust develops over time largely as a function of the parties having a history of interaction (Lindsfold, 1978).

Shapiro et al. (1992) have stipulated the elements which help in developing knowledge based trust. The first element is obtaining information about each other. This information is then used to predict the behaviour of the other person in a trusting relationship. The ability to predict the behaviour is essential in a knowledge based trust if the trustor and trusted wish to continue in a trusting relationship. The prediction becomes more accurate with repeated interaction between the trustor and the trusted achieved over a period of time. For achieving this predictability, it is necessary to have regular communication and interaction between the trustor and the trusted. The interaction may be achieved by watching each other in business or social situations or through personal interviews. This interaction and communication helps in developing knowledge and learning about each other. This knowledge and learning is then used to predict the behaviour of the other (Shapiro et al., 1992).

Even when the other person indulges in an inconsistent behaviour, the trusting relationship may still continue irrespective of the inconsistent behaviour. According to Lewicki and Bunker (1996, p122) if the inconsistent behaviour of one party can be explained then the trusting relationship may still continue irrespective of the inconsistent behaviour of that party. The behavioural inconsistency of one party can be adequately understood by the other party with adequate knowledge.

In the context of a branch manager loan officer relationship knowledge based trust results after the branch manager and the loan officer have started a trusting relationship in a work environment and remained in that relationship with each other for some time. If they are working in the same place, as they usually do, then they have occasion and opportunity to develop knowledge about each other's behaviour, have social and business interaction with each other and other persons in the branch. They can develop knowledge about the way in which other person would behave in the lending situation. This knowledge can then be used to predict the behaviour of the other. The other party would anticipate the reaction of the first party and would act in the relationship according to the anticipation. In particular, knowledge based trust is relevant for the loan officer. By observing the behaviour of the branch manager over a period of time, the loan officer should be able to anticipate branch manager's probable reaction to a lending situation. The knowledge developed enhances the predictability and leads to actions that help in acting according to the requirement of the branch manager. If the prediction leads to action acceptable to the branch manager, then the trust is likely to grow between the branch manager and the loan officer.

3.15.3 Identification based Trust

Identification based trust is the third stage of trust when the trustor and the trusted have known to each other for a long time and have developed a trusting relationship. In this stage the trustor and trusted develop an understanding of each other, know about each other's needs and are ready to fulfil each other's needs in a trusting relationship. This type of trust is more common in groups where group members identify with each other's goals and aspirations and cooperate with each other. According to Kramer (1996) "individuals in groups identify themselves with the goals espoused by the particular group and develop individual identity based on these goals.

Group identification helps in increasing the frequency of cooperation between the members leading to a trusting relationship.” Being part of a group gives certain identity to individuals and individuals derive their strengths from identifying themselves with the activities of the group.

Lewicki and Bunker (1996) have described important characteristics of identification based trust. In an identification based trust a party serves as an agent of the other party and substitute for the other in interpersonal transactions. The other party delegates part of their responsibilities or authority to the first party, with the understanding that their interests will be well protected by the trusted and they could rely on the trusted without monitoring and observing the behaviour of the trusted. In this stage of trust, the trustor and trusted know each other well and understand that they have to do certain things and do not do certain things in order to continue in a trusting relationship. Identification based trust is easy to continue with the development of a group identity, location in the same place or nearby place. Commitment to share goals or creating joint products also contribute substantially to the development of identification based trust. The parties in the identification based trust know and predict the needs, choices and preferences of the other party accurately. This prediction becomes possible through the development of knowledge and understanding. When the parties are able to know each other well, they think, feel and respond to situations in the similar way to an extent that they are able to develop an empathy towards each other and the trusted merge his/her identity with the trustor. Delegation of responsibilities in such a situation becomes easy.

Because identification based trust is based on the notion of common identity sharing, any violation of trust in such a situation can be very detrimental to the future relationship. Violation of trust in this stage of relationship is perceived to be against the

common goal or agreement on which trust is built and nurtured. Although relationships in identification based trust is strong and is able to sustain outside challenges, any violation of trust in such a situation can attract strong responses from the other members of the group or the trustor.

In the context of a branch manager loan officer relationship the identification based trust is developed after a certain period of time when both the players have remained in the relationship for some time observing each other's behaviour, preferences, likes and dislikes over a period of time. The knowledge is developed about each other by directly working with each other or through second order knowledge from other people in the branch or business help in developing identification based trust.

In this stage, the loan officer will try to identify himself/herself with the action of the branch manager. The loan officer will be able to anticipate the action or the choice of the branch manager to a particular lending situation and would act according to the perceived choice of the branch manager. The branch manager at this stage will want to delegate some of his work to loan officer for decision making with the understanding that the loan officer would take actions perceived to be right actions by the branch manager. The branch manager may allow loan officer to take decisions on some loan applications on his/her own in the absence of the branch manager with the understanding that the branch manager would confirm the actions of the loan officer later on. This is beneficial to both the branch manager and the loan officer because the decision can be taken and implemented quickly when the branch manager is not available. The loan officer has the opportunity to take the decisions, exercise the authority of the branch manager and able to demonstrate his/her identity towards the branch manager. Any wrong action on the part of loan officer in delegation can be very

detrimental to the relationship resulting in severe action against the loan officer. This could lead to the end of mutual trust.

3.16 The decline and repair of trust

The trust relationship between trustor and trusted is a continuous relationship. Like other relationships, there may be occasions in this relationship when the trusting party and the trusted party are not able to maintain their relationship and trust between them could decline. There could be a gradual or slow decline of trust or a single event could contribute to the decline of trust. When the trust declines, the situation could be frustrating for both the parties involved in trust relationship and could result in anger or fear in them. Lewicki and Bunker (1996, p. 131-136) have described the reasons for decline in trust and the ways in which decline of trust could be arrested and trust be repaired. According to Lewicki and Bunker (1996), violation of trust is a signal that the relationship between the trustor and trusted may be in trouble and it may be reasonable to repair the trusting relationship.

The first thing to do in repairing the trusting relationship is that the concerned parties should renew their commitment to trust and agree to rejuvenate the relationship. Different types of trust declines require different ways to repair the trust. Some trust declines can be repaired by cognitive work while others need emotional repair. In carrying out the repair work, the parties have to agree that there are benefits in building and maintaining trust relationship. The parties then should identify the problem and agree on rebuilding the relationship. Trust relationship need to be compared with alternative relationships for its advantages and costs. If there are constraints in discontinuation of relationship, then these constraints need to be considered. The constraints could occur in a workplace relationship where externally imposed conditions may not allow the termination of relationship. If that happens, parties could consider the

cost and benefits of remaining in trust relationship as compared to other forms of relationship.

If the parties decide to remain in a trusting relationship, then they may have to take steps to repair and restore the trust. This can be done by recognising and acknowledging that violation of trust has occurred and take responsibility for the violating actions. Then they need to determine the nature and causes of violation of trust and try to remove those causes and work for the repair of the trust. According to Lewicki and Bunker (1996), the repair of trust in knowledge based trust and identification based trust is more difficult as compared to repair of trust in calculus based trust because the self image and self esteem of the trustor and trusted may be hurt in violation of trust in those stages. It may not always be possible to completely restore the trust to its original level and if that happens, some degree of distrust may still continue.

In the context of a branch manager-loan officer relationship, a violation of trust may occur when a loan officer exceeds his /her authority delegated to him/her by the branch manager or the loan officer does not carry out the instructions of the branch manager properly. If the trust between them gets broken, then both the branch manager and the loan officer would be disadvantaged because they would not be able to work smoothly in a lending relationship. If a problem occurs in the relationship then the lending performance of the branch could get affected. In this situation, the loan officer and the branch manager could recognise the problem and try to repair the trust between the two. If they are not able to restore the decline in trust, it could be problematic not only to the branch manager and loan officer but to the entire branch. If the distrust discontinues, then the branch manager may want to reallocate the loan officer out of the loans department. If he/she is not able to reallocate the loan officer out of the loans

department then a shell of a relationship may continue until the branch manager is able to reallocate the loans officer from the loans department or out of the branch. Some branch managers may not have a choice in this regard due to bank's staffing policies and a complete repair of trust may not occur. Such a situation could have considerable effect on branch's lending performance.

3.17 Framework of Trust between Branch Manager and Loan officers

The theoretical model of Mayer et al. (1995) is modified to develop a framework of trust between branch managers and loan officers of bank branches in India. The purpose of the model is to describe the relationship between branch manager and loan officer and provide a theoretical foundation for the relationship. This framework is described in Figure 3.1.

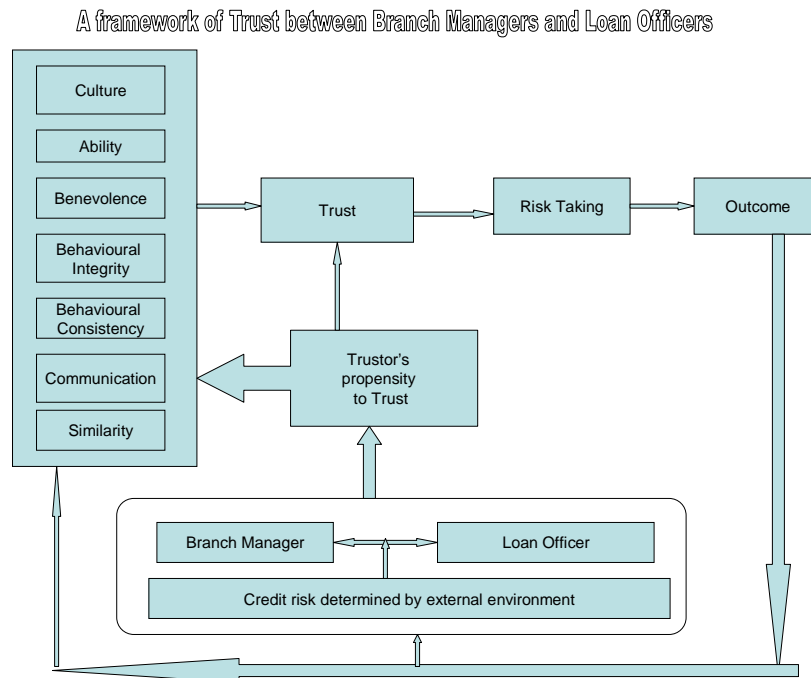


Fig: 3.1 Framework of Trust between Branch Managers and Loan Officers

The key concepts are adopted from the model of Mayer et al. (1995) and stages of trust development of Lewicki and Bunker (1996) and Lewicki et al. (2006) and are described below.

1. A Branch manager and Loan officer develop a trusting relationship due to credit risk caused by external environment. The branch manager and loan officer have propensity to trust and develop trust due to risky situation they are involved in.
2. The risk caused by external environment leads to development of trust and trust leads to risk taking in the relationship. The higher the trust in the relationship, the more is the assumption of perceived risk in the relationship.
3. Trust between branch manager and loan officer is based on a number of key factors of trust. These are similarity, ability or knowledge, benevolence, behavioural integrity, behavioural consistency, communication and culture. Culture is identified as an important factor of trust in Indian context.
4. Trust between branch manager and loan officer may develop in stages. As suggested by Lewicki and Bunker (1996), trust between branch manager and loan officer may develop in three stages – calculus based, trust, knowledge based trust and identification based trust.
5. Trust between branch manager and loan officer may contribute to improvement in lending performance of the bank branches in India as trust leads to improvement in business performance as suggested by Gill et al. (2006).

The first element of a framework of trust between branch manager and loan officer is that branch managers and loan officers of Indian bank branches work in a risky lending environment. The risk levels in Indian bank branches are high and determined by government lending policies, legal environment and the organisational structure of banks. This risky situation encourages development of trust between branch

managers and loan officers. The risk in Indian banks arises due to government intervention in bank lending in India. All public sector banks in India are required to lend 40 per cent of their total advances to specified priority sector of economy. Banks in general and public sector banks in particular have a large portfolio of non-performing loans because the banks have followed government policy on lending resulting in increased levels of non-performing loans.

The role of risk in the framework of trust between branch manager and loan officer is reformulated in the present study. In the models of Mayer, Davis and Schoorman (1995) the risk arises in relationship after trusting party and trusted party enter into a trust relationship. The trust between trusting party and trusted party is considered a voluntary association between the two based on the perceived costs and benefits of trust. But the branch managers and loan officers may not enter into a trust relationship voluntarily. Both are part of banking organisation and the bank may assign them certain placement and allocate them certain work over which they may not have any choice. They may also not have choice about the people they associate with. Yet the branch manager and loan officer may enter into a trust relationship because of the risk involved in their work and situation. The development of trust between branch managers and loan officers may be situational and may not be voluntary.

The second element of the framework of trust between branch manager and loan officer is that trust between branch manager and loan officer depends on certain factors of trust. These factors of trust have been identified in the literature as similarity, knowledge, benevolence, behavioural integrity, behavioural consistency, communication and culture. The first model of trust of Mayer, Davis and Schoorman (1995) had three factors of trust as ability or knowledge or ability, benevolence and integrity. Subsequently three more factors of trust were identified as behavioural

consistency, similarity and communication by Valez (2000) and Wintoro (2000). In the present research, a seventh factor of trust, culture, is incorporated into the framework of trust in addition to six factors of trust mentioned above. The importance of each of these factors of trust in the relationship between branch manager and loan officer is explained below.

Similarity is the first factor of trust. Similarity has an impact on willingness to trust (Creed and Miles, 1996). Individuals are willing to trust others who exhibit characteristics similar to their own. A branch manager may be willing to trust a loan officer whom he or she perceives to have similar characteristics to their own. Similarity can exist in a number of ways as similarity in work style, similarity in personal qualities, similarity of race, religion, culture or language.

The second factor of trust is ability or competence or knowledge. Knowledge is an essential characteristic of development of trust in a lending situation. Lending involves assumption of risk. Assumption of risk without the competence of trusted person can increase the risk. Skills in job performance are essential components of ability or knowledge. Butler and Cantrell (1984) found that competence of subordinate was a determining factor of levels of trust that would be placed in the subordinate. In the context of branch manager-loan officer relationship, ability would mean knowledge and competence on how the loan function is performed. A loan officer would be required to have knowledge about various policies, products, systems and procedures of the bank, analytical techniques such as balance sheet and cash flow analysis skills, legal knowledge, knowledge about people, place and customers of the bank branch. For a branch manager, ability may include the ability to take decisions, resolve conflicts and handle unforeseen situations additionally.

The third factor of trust considered in the framework of trust between branch manager and loan officer is benevolence. Benevolence was defined by Mayer et al. (1995) as the extent to which a trusted party want to do good to the trusting party. For the purpose of this research, the definition of benevolence given by Valez (2000) is used here. According to Valez (2000), benevolence is the action of superior managers in protecting the interests of their subordinates loan officers, not exploiting the loan officers to further their own interests and remaining considerate and sensitive to the needs of their subordinates. This definition of Valez (2000) is more appropriate to superior subordinate relationship such as the one between branch manager and loan officer, as compared to the definition of Mayer (1995). As the relationship between branch manager and loan officer is a superior subordinate relationship, the definition of benevolence given by Valez (2000) is used here.

The fourth factor of trust is behavioural integrity. Behavioural integrity is defined by Mayer et al. (1995) as one of the five categories of behaviour that could influence the employee's perception of managerial behaviour. In case of branch manager-loan officer trust relationship, issues of consistency of past actions of both branch manager and loan officer, credible communication between the two and about each other to other parties, belief that trusting party has a strong sense of justice and extent to which the actions of both branch manager and loan officer are congruent with their words, would affect the way in which each party to trust is judged to have their integrity. A person who is consistently incompetent and dishonest may not be trusted at all. Integrity and honesty are considered as important parts of trust relationship between branch manager and loan officer.

The next factor of trust in the framework is behavioural consistency. Valez (2000) defines behavioural consistency as the predictability as the reliability and

predictability of the trusted party. This is achieved by gathering information and predicting the behaviour of each other by branch manager and loan officer. Branch manager and loan officer may look for common patterns in each others behaviour and use the knowledge so developed to predict the future behaviour of the other party on lending issues and decisions. This prediction of other party's behaviour helps in estimating the amount of risk that a branch manager or loan officer may be willing to take in their trust relationship. A loan officer's perception of the consistency of branch manager's behaviour will determine the extent to which he or she may be willing to trust the branch manager.

The sixth factor in the framework of trust is communication. The branch manager-loan officer relationship is a supervisor-subordinate relationship. Communication is considered vital to the development and maintenance of trust. When the branch manager as supervisor provides accurate information to loan officer, explain decisions clearly to loan officer and is open to any feedback from the loan officer, in that case loan officer is likely to trust the branch manager. Honesty of each other and clear communication between them is important to branch manager-loan officer relationship (Calderon, 2002).

Culture is the last factor which is considered important in trust between branch manager and loan officer of bank branches in India. Culture is an important determinant of business relationship in Indian context, given the history, geography and social structure of India. Taube (2004) have found that economic relationships such as the one between branch manager and loan officer should be looked into using not just economic and geographical factors but also cultural factors. According to Singh and Siehl (2004) an effective leader in India have to take into account the cultural differences due to diversion in religion, caste, language before putting together a team. Among the

components of culture considered important in India, Taube (2004) regard caste and ethnicity as essential parts of Indian culture. Rishi (2002) found that values of affiliation, personal concern, dependence and personal warmth of nurturing leadership can create climate of trust and understanding between people in business in India. It is therefore necessary that culture is incorporated as a determining factor in any trust relationship involving a branch manager and loan officer of Indian bank branches. In the present research cultural values of caste, ethnicity, race, religion, values of affiliation, personal concern and nurturing attitude of branch manager are considered important for trust relationship between branch manager and loan officer.

The third element of framework of trust between branch manager and loan officer is the stages in which trust between the two parties develop and sustain. Lewicki and Bunker (1996) and Lewicki et al. (2006) have proposed three stages of trust development between a trusting party and trusted party. These three stages are: calculus based trust, knowledge based trust and identification based trust. For the purpose of this research, these three stages of trust are considered for development and growth of trust between branch manager and loan officer of bank branches in India as well.

Calculus based trust is very relevant to supervisor subordinate relationship as that of a branch manager and loan officer because branch manager is supervisor and loan officer is a subordinate officer of branch manager. In the first stage, the initial relationship between branch manager and loan officer is very similar to calculus based trust. The branch manager may be able to impose some penalty on loan officer if the loan officer violates branch manager's trust and the branch manager should be able to offer some reward to loan officer for observing trust, as suggested by Lewicki and Bunker (1996).

In the first stage of calculus based trust, the condition for observance of trust is that both the branch manager and loan officer should value the benefits of trust in the relationship to be more than loss due to discontinuation of a trusting relationship. The perceived benefits of trust relationship between branch manager and loan officer could be the improvement of lending performance of the branch that may occur due to trust between branch manager and loan officer. The perceived cost or loss of not developing a trust in relationship could be the deterioration in the lending performance of the branch. If the perceived benefit of trust is more than perceived cost or loss due to lack of trust, branch manager and loan officer would be motivated to develop trust in relationship.

The second stage of trust is knowledge based trust when the branch manager and loan officer have remained in trust for some time and had the opportunity to observe each other's behaviour and develop knowledge about each other. The development of knowledge about each other by branch manager and loan officer helps in predicting the behaviour of the other party. The information is obtained and knowledge is developed about each other over a period of time when both branch manager and loan officer interact with each other. Knowledge is then used to predict the behaviour of each other in lending situations. The predictability is achieved by regular communication and interaction between branch manager and loan officer. Both loan officer and branch manager watch each other's behaviour in business or social situations and also through personal interaction on the job. Sometimes knowledge could be developed through information obtained about each other from third parties which could be other staff members of the branch or the customers. The knowledge developed enhances the predictability and leads to actions that help the loan officer act according to the

requirements of the branch manager. If the predictions lead to actions likely to be acceptable to branch manager, trust is likely to grow between them.

The third stage of trust is identification based trust. The identification based trust is developed after a certain period of time when both branch manager and loan officer have remained in a relationship for some time. During this period they have the opportunity to observe likes, dislikes preferences and behaviour of each other. The knowledge developed by loan officer in the knowledge based trust about branch manager is used to anticipate the actions and choices of the branch manager to a particular situation and would act according to the perceived choices of the branch manager. The loan officer tries to identify himself or herself with the actions of the branch manager in this stage. The branch manager in this stage would want to delegate some of his work or authority to loan officer with the understanding that the loan officer would take decisions perceived to be right by the branch manager. The branch manager may however delegate only part of their lending authority to loan officer where the perceived risk levels of lending are less. The delegation may be limited to certain categories of loans or limited authority for actions in lending decisions. The delegation is beneficial to the branch manager and the loan officer both because the decisions can be taken quickly and implemented. Any decision taken by loan officer on lending issues may however be subject to the confirmation of branch manager. The delegation of authority by branch manager to loan officer in identification based trust demonstrates that branch manager is willing to take risk in trusting loan officer and loan officer is willing to assume risk in delegation on behalf of the branch manager. The loan officer in this way has the opportunity to take decisions and exercise the authority of branch manager and demonstrate his or her identity towards the branch manager.

The literature suggests that trust helps in improving business performance. Trust may improve business performance in many ways. Results of Dyer and Chun study (2003) of auto suppliers in Japan, Korea and USA suggest that trust helps in reducing business performance by reducing transaction costs. Trust provides the opportunity for reduction in transaction costs because in a trusting relationship lower levels of monitoring and safeguards are required (McEvily, 2003 and Luhman, 1979). Trust based relationships are considered to be cheaper to maintain than those in which than those in which trust is absent (Dyer and Chu, 2003). Zojac and Olsen (1993) have suggested that trust improves through enhancement of transaction value. Sharing of confidential and sensitive information creates value in relationship which enhances performance. Macneil (1980), Heide and John (1990) , Williamson (1993) and Zaheer and Venkataraman (1995) suggest that trust may improve performance through relational governance. Relational governance is a “mode of organisational exchange that involves the integration of various activities in organisations which may include decision making, planning and problem solving. Trust provides conditions which facilitate close collaboration between people and interdependencies which help in improving performance (McEvily and Zaheer, 2006).

Based on the literature which suggests that trust may improve business performance, this study explores the effect that trust between branch managers and loan officers of bank branches in India may have on the lending performance of the bank branches. The performance on improvements will be observed in the following indicators of lending performance of bank branches in India: number of loan accounts: rupee amount of loan disbursed, implementation of head office/Reserve Bank of India directive and policies, recovery of non-performing assets, improvement in quality of asset management, increase in generation of interest income/fee income on loans and

increase in the profitability of loans. It is expected that trust between branch manager and loan officer should lead to improvement in lending performance of the bank branches on suggested indicators.

3.18 Summary of the Chapter

The purpose of this chapter is to establish a theoretical basis for describing the relationship between branch manager and loan officers of Indian bank branches. The relationship between branch manager and loan officer is multi-dimensional. Branch managers are the leaders and chief executive of the bank branch at the local level. A loan officer works under the supervision of branch manager. Therefore, branch manager is a superior officer and the loan officer is a subordinate officer. The relationship between branch manager and loan officer, in this context can be termed as a superior-subordinate relationship.

Sometimes branch manager and loan officer may act independently of each other, when a part of branch manager's authority is delegated to the loan officer. Both the branch manager and the loan officer are accountable to head office and senior management of the bank for decisions taken by them. Also, the branch manager and loan officer work in a hierarchical organisation structure of the bank. In that context, they are agents of the bank and are expected to follow the procedures and policies laid down by the management of the bank.

Although the loan officer works under the supervision of branch manager, the relationship between branch manager and loan officer cannot be described as a principal-agent relationship. The relationship between branch manager and loan officer is multi-faceted. First element of this relationship is superior subordinate relationship. The second element is delegation of authority to loan officer by the branch manager. The third element of relationship is the vulnerability of branch manager on loan officer

for performing lending tasks and dependence of loan officer on branch manager for career development and guidance. The fourth element of this relationship is the assumption of risk by loan officer and branch manager in lending business of the bank. In all these situations of assumption of risk in lending, superior-subordinate relationship, delegation of authority and situation of mutual vulnerability and dependence of branch manager and loan officer, trust theory is considered more appropriate and relevant in describing the relationship as compared to agency theory (Lewicki and McAllister, 1999; Michaelis, 1990 and Gambatta, 1988).

In this thesis, the relationship between branch manager and loan officer is described using a framework of trust. This framework of trust between branch manager and loan officer is developed using a theoretical model of trust developed by Mayer et al. (1995) and stages of trust development of Lewicki and Bunker (1996) and Lewicki et al (2006).

The first element of framework of trust between branch manager and loan officer is that both the functionaries of the bank work in a risky lending environment. The risky lending situation encourages development of trust between them. The development of trust between branch manager and loan officer is considered situational and not a voluntary trust because branch manager and loan officer are part of banking organisation for which they work. The association between them is not voluntary but a part of the placement by the bank.

There are two ways in which risk occurs in the relationship between branch manager and loan officer. Firstly, risk in lending business motivates branch manager and loan officer to enter into a trust relationship. Secondly, both branch manager and loan officer assume risk when they trust each other as trust creates mutual dependence

and vulnerability between the two, which in turn leads to the assumption of risk in relationship.

The second element of framework of trust between branch manager and loan officer is that trust between them depends on certain factors of trust. From the literature these factors of trust have been identified as: similarity, knowledge, benevolence, behavioural integrity, behavioural consistency and communication (Mayer, Davis and Schoorman, 1999; Valez, 2000 and Wintoro, 2000). In the present study, a seventh factor of trust, culture, is included in the framework of trust between branch manager and loan officer. Culture is considered an important determinant of business relationship in India (Taube, 2004; Singh and Siehl, 2004) and, therefore, incorporated into trust between branch managers and loan officers of Indian bank branches.

The third element of present framework of trust is that trust between branch manager and loan officer develop in stages. Lewicki and Bunker (1996, 2006) have described three stages of trust development. These are calculus based trust, knowledge based trust and identification based trust. Each of these three stages are characterised by certain activities which branch manager and loan officer may perform in their relationship and these activities will determine the extent to which branch manager and loan officer will trust each other.

The next element of framework of trust is that trust between branch manager and loan officer may help to improve the lending performance of the bank branches. The improvement in lending performance could be expected on a number of indicators of lending business such as number of loan accounts, rupee amount of loans disbursed, implementation of head office/Reserve Bank of India directives and policies, recovery of non-performing assets, improvement in quality of asset management, increase in generation of interest income/fee on loans and profitability of loans.

The research design and methodology used to empirically examine the trust relationship between branch manager and loan officer of bank branches in India is presented in the next chapter.

Chapter 4

Research Design and Methodology

4.1 Introduction

The previous chapters (chapter 2 and chapter 3) helped in determining the background to actual trust relationship between the branch manager and the loan officer. The purpose of this chapter is to define and explain the approach used in this empirical study to define the data required, explain how the data was collected and the major steps involved in data collection.

The major objective of this study is to investigate the role of trust relationship between the branch manager and the loan officers of Indian bank branches. The trust relationship between the branch manager and the loan officer arises because the branch manager has the authority to supervise loan officer. The organisational context in which the branch manager and the loan officer operate were discussed in chapter 2 along with the operational and regulatory characteristics of the Indian banking system in order to determine the organisational, business and regulatory constraints that influence the trusting relationship between the branch manager and the loan officer.

The influence on the branch manager and the loan officer relationship arises due to a number of factors. The historical context of banking in India has laid down social banking as an important part of the government policy, which has influenced the regulatory policies of RBI in India. As a part of an organisation, the branch manager and loan officer have to follow the policies laid down by RBI and the head office of the bank. Because they operate under a hierarchical structure determined by the Head office of the bank, both branch manager and loan officer are made accountable to various

stakeholders and exposed to a risky environment. In chapter 3, it was determined that trust theory is suitable in determining the influential factors in this relationship.

In chapter 3 of this thesis, it was established that trust theory is the most appropriate model to gain insight into the behavioural issues, dimensions and factors that affect the formation, development and effective operation of the relationship between the branch manager and the loan officer of Indian banks. In chapter 3, it was also determined that in order to develop trust, the branch manager and the loan officer needed to have certain characteristics. Based on the literature, these characteristics were identified as – similarity, knowledge, benevolence, behavioural integrity, behavioural consistency, communication and culture. It was also determined that trust development takes place in different stages. The three stages of trust development were identified as – calculus based trust, knowledge based trust and identity based trust. Each of these stages is helpful in determining the evolution of trust. Further, trust between the branch manager and the loan officer was linked to the lending performance of the branch.

In section 4.2 of this chapter the reasons for the choosing a qualitative method of research for this thesis are discussed. Since this study is focused on the relationship between branch manager and loan officer, the case study method is considered more suitable for this thesis because the case study method helps in investigating the nuances of this relationship in depth. In section 4.3, the details of case study method used in this thesis are discussed and in section 4.4, the method used in the analysis of the data collected is described.

4.2 The Reasons for using the Qualitative Method of Research

Despite the growing body of behavioural research, the financial market research has been dominated by quantitative research on securities pricing, efficient market hypothesis, capital asset pricing model and option pricing model. The quantitative research in finance is influenced by a number of assumptions about the way people operate in financial markets. According to Bettner et al. (1994) capital market research assumes that there is an underlying cause and effect relationship in all financial activities and the initial and final outcomes in the financial markets are connected with each other. This connection with initial and final outcomes can be determined with certainty if conditions under which the outcomes can be determined, are specified with certainty.

According to Bettner et al. (1994) the assumption that the connection between the initial and final outcomes can be determined with certainty, is not a valid assumption because it ignores the free will of the people involved in financial market transactions. Human behaviour is thus governed by a cause and effect mechanism. It is further assumed that all operators in the financial markets have equal access to the institutions and systems of the financial activity and thus no one has any edge over the other. With these assumptions, the capital market research focuses on using the logic of statistical analysis and inferences in measuring financial activity.

Quantitative research approach, which is based on the logic of statistical analysis and direct cause and effects between initial and final outcomes is not appropriate for the current study as such a research cannot capture the complex relationship between branch manager and loan officer. The relationship between the two is complex as their relationship depends on the behavioural dimensions of their interactions. Since the purpose of this thesis is to identify the organisational, cultural and other influences

under which the branch managers and the loan officers operate in their lending business, a qualitative approach is considered more appropriate to examine the underlined issues.

There is evidence in the literature to suggest that the qualitative research in finance helps in examination of market behaviour of the participants in relation to their social, political, cultural and ethical conditions. Bettner et al. (1994) have argued that introducing a qualitative approach into normative financial research will enable researchers to examine aggregate market behaviour in conjunction with social, cultural, ecological, political and ethical issues. To understand the collective behaviour of financial market participants, Adler and Adler (1984), consider stock markets to be the collective behaviour of financial market participants. According to them, the actions and reactions of people involved in stock market is representative of the behaviour of the ordinary people in other spheres in life. Bettner et al. (1994) consider the effect of cultural and social differences in financial practice to be critical in determining the differences in financial markets, which leads to differences in financial practices between countries. These differences are often neglected by quantitative theories.

The present thesis is based on the behaviour of the branch manager and the loan officer who operate in an organisational culture in India where cultural, social and political factors are influential. The effects of these factors on the behaviour of branch manager and loan officer cannot be measured quantitatively but can be understood using an interpretive research paradigm. Burrell and Morgan (1979) have argued for introducing such an interpretive research paradigm into financial market research in order to better understand the behaviour and judgment of the financial market participants.

Frankfurter and McGuan (1996) give two reasons for using interpretive research paradigm in behavioural research on stock markets. Their first reason is that

the nature of behavioural research may be subjective when exploring any and why questions. Secondly, the behaviour of the investors is known by investigating the underlying factors because the behaviour of the investors may be dynamic as a response to changing information (human nature) and the information regarding the behaviour of the investors may be acquired by conducting observations or interviews.

The present research focuses on the relationship between the branch manager and loan officer of bank branches in India in a lending environment. The relationship is expected to be based on trust. Investigating the behaviour of the branch manager and the loan officer requires the understanding of the underlying factors of trustworthiness between the two. The trust between the two is formed and evolved over a period of time and is a dynamic relation, which is influenced by many constraints and factors. This study attempts to capture the nuances of this relationship through a qualitative research approach.

Frankfurter and McGuan (1996) have identified Grounded Theory, ethnography and case study methods as the appropriate methods for undertaking a study involving interpretive research paradigm. Each of these methods has its own advantages and disadvantages.

Grounded theory is a research method based on the fact that theory is derived from the data. Grounded Theory uses an inductive approach where the theory is developed from conceptualizing the data. According to Davidson (2001), Grounded theory has many characteristics which are designed to maintain “the groundedness” of the approach. Data collection and analysis are consciously combined and initial data analysis is used to shape continuing data collection. The primary requirement of judging a good grounded theory is that it should fit the phenomenon provided it has been carefully derived from diverse data. Since the specific context of this study does not fit

into the mould of Grounded theory, it is not utilized for this study. The research method adopted in this study is based on using a theoretical context of trust to describe a particular financial context. In this study, the theory is used first to understand the relationship and then the relationship between the branch manager and the loan officer. From trust theory, specific framework of trust between the branch manager and loan officer is developed, which is then used to observe the relationship between the branch manager and loan officer. Because the theory is used to describe the observation, it can be identified as a deductive process.

The second research method put forward by Frankfurter and McGuan (1996) involves the use of ethnography as a research method. Ethnography involves focusing on the sociology of meaning through close field observation. Ethnography requires close field observation selecting participants in a particular community. The participants in the community are interviewed and their responses recorded. The purpose of this process is to identify the common cultural understanding related to the phenomenon under study. Although information is subjective yet it provides a collective understanding on a subject and often considered significant as compared to an objective statistical study.

The present study focuses on the relationship between the branch manager and the loan officers operating in a particular business context. The data is collected through close field observation and participants were selected from a particular group of loan officers and branch managers. The participating branch managers and the loan officers were interviewed and their responses recorded. The purpose of this process is to identify common characteristics of the trust relationship between the branch manager and the loan officer the relation of trust to the lending performance of the branch. Although the relation between branch manager and loan officer depends on the cultural environment

in which they operate, their relationship is primarily a business relationship and the use of ethnography is not considered suitable to understand the relationship between branch manager and loan officer.

The third research method given by Frankfurter and McGuan(1994) is the case study method. The advantage of case study method is that it provides the ability to understand the causal paths and mechanism and to identify the causal influences and interactions between the members of a particular community. The case study method allows study of multiple research entities for comparisons of different units. Case studies are not the representatives of whole population but that does not make the methodology invalid because the researcher refrains from over-generalizations. Further the case studies are driven by theory. The theories are associated with the cause and effect relationship of dependent and independent variables.

In the present research a case study method is used because the influences and interactions in relationships between the branch manager and the loan officer need to be studied. Study of eight different branches allows comparison of behaviour of branch managers and loan officers in different cases. Although only eight branches are studied and this number cannot be considered as a representative of the entire Indian banking industry, the study of multiple cases provide the opportunity for comparison between theory and observation and comparison between different cases. This comparison helps in associating cause and effect relationships across variables.

A case study approach is used in this thesis to collect and analyse the data on key factors of trustworthiness of branch managers and loan officers and on the key activities performed by the branch manager and the loan officer for developing a trust relationship. The case study method is considered suitable due to the fact that this research involves understanding the relationship between the branch manager and the

loan officer in a real life setting in the branch over which the research investigator has no control. This research involves an in-depth study of the factors that influence the relationship between the branch manager and the loan officer.

In the next section, the literature on case study method is discussed in order to understand the requirements for the current study.

4.3 The Case Study Method

In this research, a case study method is used to collect and analyse the data. In this section, the case study method and its relevance to the present study is given.

The case study method is defined by Yin (2003, p.13) as “an empirical enquiry that investigates a contemporary within its real life context, especially when the boundaries between the phenomenon and the context is not clearly evident”. The definition given by Yin describes case study as a study of real life context where it is not easy to separate observable from the observed. The current research problem is focused on the relationship between branch manager and loan officer. Both these functionaries operate in the context of their business environment and the relationship between them cannot be separated from the context and environment in which they operate. The case study method in such a context is considered appropriate.

Further, according to Yin (2003), the case study enquiry copes with the technical distinctive situation in which there will be many more variables of interest than data points and as one result relies on multiple sources of evidence with data needing to converge into a triangular fashion and as another result benefits from the prior development of theoretical proposition to guide data collection and analysis.

The definition given by Yin(2003) requires that the case study should be based on prior theoretical proposition or model which helps in forming the basis of data collection and analysis. Further the data in a case study is not usually statistical data but

variables that have a dependence on each other through relationships which may not be described statistically. The case study method is relevant where relationships are described but not necessarily in a mathematical formula.

In the present research, a theoretical model based on trust theory which describes the relationship between the branch manager and the loan officer was developed in chapter 3. This model described the relationship between the branch manager and the loan officer on the basis of key factors of trustworthiness and stages of trust development. These key factors of trustworthiness and stages of trust developments describe the data points in the present study. They are not represented by mathematical variables but by descriptive data.

McCutcheon and Meredith, (1993, p.240) define a case study as an “objective, in-depth examination of a contemporary phenomenon where the investigators have little control over the events’. The current research on the relationship between the branch manager and the loan officer is the study of a current phenomenon in banking and the investigator of this research has no control over what they do in their professional relationship. The investigator has to observe their professional relationship as it exists and analyse it subjectively based on a theoretical proposition of trust theory. A case study approach is therefore relevant for this study.

The literature outlines the advantages of a case study method as a research method. According to George and Bennet (2005, p.19) the case study method allows the researcher to achieve a high level of conceptual validity to identify and measure the indicators that best represent the theoretical concepts that the researcher intends to measure. This method allows for a conceptual refinement with higher level of validity over a small number of cases. The case study method also helps in identifying new variables for a particular research issue by studying the deviant behaviour among the

variables and cases which do not fit into a particular mould and considered outliers. The case study method also facilitates the detailed study of individual cases and help in understanding the causal mechanism between the variables. A single case usually describes a large number of variables and help in observing any unexpected aspects or conditions that could be present in a case. The study of unexpected aspects is important as it helps in identifying new variables in a particular relationship of the case. The case study method helps in understanding the complex relationships between the variables and the interaction between these variables (George and Bennet, 2005).

The case study method is particularly suitable for the study of trustworthiness between the branch manager and the loan officer of Indian banks because the relationship is operating in a particular cultural context of Indian banking system and involves the study of interaction between branch manager and the loan officer in a real life branch setting. This particular research issue is developed on the basis of a theoretical research framework of trust theory. Furthermore, the theoretical model of trust needs to be validated by identifying and measuring the indicators of trust that represent the relationship between branch manager and loan officer.

The case study method will help in identifying variables determining the relationship between branch manager and the loan officer and also help in understanding any deviations in observed behaviour from the theoretically predicted model. Eight cases in this study are considered sufficient to look at large number of variables determining the relationship between the branch manager and the loan officer of Indian bank branches.

Case study approach is also considered suitable for studying business relationships. The relationship between the branch manager and the loan officer is a business relationship involved in the delivery and management of credit to customers on

behalf of the bank. This research is about the interaction between branch manager and the loan officer as to how these players are involved in a lending situation.

According to Hammel, (1992) and Orum et al. (1991), the case study is a rigorous method to explore the interaction between individuals and hence the case study method is considered suitable method for this particular study because it is intended to study the business interaction between the branch manager and the loan officer in a business situation. The case study method has been used previously to understand the business relationships between individuals involved in a business situation. (Kozak and Cohen, 1997 and Lewin and Johnson, 1997).

Considering the merit and suitability of the case study method in examining the underlined issues of this study, it was decided to conduct a case study of eight branches of Indian banking system to achieve the objective of this study. It is not possible to study all the 76,000 branches of banks in India. Therefore, in order to achieve the objectives of this study, a small number of eight bank branches have been studied using the case study method. The research design of the case study conducted in this research is explained in the next section.

4.4 Research Design of the Case study

According to Yin (2003, p. 21), the research design of a case study has four components – a study question, its proposition, data collection methods and data analysis. A study question in the present context would examine the role of trust between branch manager and loan officer relationship. More specifically, what are the factors of trust between the branch manager and the loan officer, how the trust develops between the two, and how the trust between the branch manager and the loan officer affects the performance of the branch. The first component of the research design—study question and its proposition are explained in the next section. The data collection

method will describe the rules and techniques for collection of data through interview process, the rules for selection of branch manager and the loan officer, and how the data will be recorded. The data analysis method will involve the method used in the analysis of data through pattern matching method and comparison of theoretical method and observational methods. In the subsequent sections, data collection and data analysis methods are explained.

4.4.1 The Case Study Question

The present case study examines the role that trust may play between the branch manager and loan officer of Indian bank branches in determining the effectiveness of the relationship. The two most important actors in this relationship are – branch managers and loan officers of the branches. The key aspects of the relationship between the branch manager and the loan officer to be addressed are: Firstly, the individual factors that help in developing trust between the two actors. In this regard the key factors of trustworthiness in branch manager from the perspective of the loan officer and the key factors of trustworthiness in loan officer from the perspective of the branch managers are studied, Secondly, various stages of development of trust relationship between the branch manager and loan officer, Thirdly the level of trust between the two key players – branch manager and loan officer and lending performance of the branch. Overall, main purpose of the case study is to establish that trust between branch managers and loan officers is an important aspect of risk management in lending. Trust develops based on certain key factors and the trust leads to improvement in lending performance of the branch.

For the purpose of this study, a branch manager is defined as a person who is in-charge of the branch. They manage the branch on behalf of the head office of the bank in India and are appointed to the position by the head office of the bank. The manager

may have the authority to select a loan officer who manages the loan portfolio of the branch. The branch manager may or may not have the authority to discontinue the relationship with the loan officer.

A loan officer is defined as a person who manages the lending function of a bank branch under the supervision of the branch manager. The loan officer has accountability towards head office of the bank and the branch manager and is appointed /selected to the job by the branch manager under the rule of the bank. The loan officer receives delegation on the job from the branch manager and has the responsibility to build and develop a relationship with the branch manager. Both the branch manager and the loan officer have worked in their respective positions for at least six months and have experience in developing a relationship.

4.4.2 Case Selection

In the previous section, the case study question was defined and the criteria were laid down for the selection of the branch manager and the loan officer for this study. In this section, the approach adopted to case selection in this study and the reasons are discussed.

The purpose of making a case selection is to limit the number of cases that are to be studied and to define the criteria for selection of cases which will help in understanding and answering the research questions given in the previous section. According to Mason (1996, p.100) “theoretical or purpose sampling is a set of procedures where researchers manipulate their analysis, theory and sampling activities interactively during the research process.” Masson elaborates on the purpose of theoretical sampling by explaining that sampling is intended to help researcher in the process of sampling, data generation and data analysis through inductive reasoning. The implication is that the researcher should be able to decide on the selection of branch

managers and loan officers, considered to be adequate for the study, analysis and explanation.

For the purpose of this study, eight branches were selected based on the accessibility of the branch managers and loan officers and their desire to participate in the study. This number may not be representative of the Indian banking industry which is very big (approx. 76,000 branches), but is considered adequate for theoretical or purpose sampling, since the purpose of this study is not to generalise but to conduct in-depth analysis of several individual cases, an examination of eight cases is expected to provide support for this study's propositions. According to Yin (2003, p.48) "The ability to conduct 6 or 10 cases case studies, arranged effectively within a multiple- case design is analogous to conducting 6 or 10 experiments on related topics. These 6 or 10 cases would have provided compelling support for the initial proposition" according to Herriot & Firestone (1983), "The evidence from multiple cases is considered more compelling and the overall study is considered more robust." Thus the study of eight cases studied in the present research will provide sufficient evidence on trust factors between branch managers and loan officers and on the stages of trust development between the two actors in the relationship and on the relation of trust with the lending performance of bank branches in India.

4.4.3 Data Collection – The interview technique

The interview technique was used in collecting the data for this case study. For the present study the interview is considered as a suitable technique for data collection because the present study is based on the in depth investigation of the relationship and interaction between branch manager and loan officer of bank branches in India. According to Gorden (1980), the interview technique involves obtaining set of responses of the interviewees to a set of question or issues under investigation for the

purpose of understanding and analysing those responses relative to the research questions or issues. The choice of interview technique is made here due to a number of advantages described below.

The interview technique, which is the most commonly used technique in data collection, has certain advantages in data collection where an in depth study or understanding is required. First the interview technique is helpful to the interviewees because they can understand the purpose of the interview question asked and then can properly respond to a question being asked. The interviewees can properly respond to the question if they understand the meaning and the purpose for which a particular question is asked. If they do not understand the questions asked, the interviewees can seek clarifications on the interview questions from the researcher.

In addition the interview gives an opportunity to the interviewee to put forward their perception, if any, on the questions asked. Sometimes the perception of the interviewees could be very different from that of the researcher. A different perception helps the researcher in understanding the response of the interviewees in a better way.

The second advantage of the interview technique is that it is flexible and interactive and can be modified as the interview goes along. The flexibility of the technique is important in the present case study because flexibility helps in exploring the content of the interview question and sequencing the questions asked. The ability to change the sequencing of the of the questions asked can elicit better response from the interviewee as compared to the observance of a rigid schedule in the interview process. The flexibility also involves rescheduling the interview at a later time if considered appropriate. The researcher still retains control over the process of data gathering although the researcher may stop or continue data gathering depending on the response and motivation of the interviewee at a particular time or any external interruption that

might occur during the interview. The interview can be resumed later if discontinued for any reason. The flexibility helps in the process of improving the quality of data collection, which could be affected if a rigid schedule is followed.

Finally, the interview technique is helpful in evaluating the quality of data collected. The researcher has the opportunity to continuously evaluate the validity of the data collected and may introduce any modifications in the process of data collection if any weaknesses in the data collection are observed.

The interviews for the present study were conducted on a working day of each of the eight branches studied. The advantage of conducting interviews on a working day on the branch premises is that the response of the branch managers and the loan officers to the interview questions could be expected to be based on their normal business responses under the business conditions they operate in. The disadvantage of conducting interviews on a working day is that branch managers and loan officers had to perform their normal work. Sometimes there were interruptions from customers or from other branch staff members; in which case the interviews were discontinued at the time and resumed and completed later at the convenience of the interviewees (Gorden, 1980). The researcher remained in the control of data collection process although interviews process was allowed to be flexible.

4.4.3.1 The Selection of the Interviewees

The interviewees in the present study were selected using the criteria set by Gorden (1980) for selecting the interviewees. According to Gorden (1980) the interviewees should possess certain characteristics for being selected for an interview. These characteristics are that the interviewees should be in the possession of relevant information, the interviewees should be accessible – physically and socially, the interviewees should be willing to provide the necessary information and are able to give

the necessary information on interview questions. The branch managers and loan officers for the present study were selected based on the Gorden's (1980) criteria for the selection of interviewees.

The criteria set down for the selection of branch managers and loan officers are important because this research relates to trust relation between branch manager and loan officer of Indian banks who are in a trusting relationship with each other. Since this research is focused on trust relationship between branch managers and loan officers of nationalised banks in a specific cultural setting, it is important that in order to maintain the validity of the research, the interviewees are selected according to the criteria required for the research question.

4.4.3.1.1 Selection of Interviewees – Branch managers

The branch managers chosen to be interviewed were

- responsible for managing a bank branch of a nationalised bank in India
- responsible for overall supervision of the branch and supervises a Loan Officer in that capacity;
- vested with discretionary powers granted by the head office of the bank in regards to lending operations; and
- agreed to give his/ her perception about the relationship with the loan officer, for a period of approx. one hour.

4.4.3.1.2 Selection of Interviewees – Loan Officers

The loan officer chosen to be interviewed were

- responsible for supervising the loan function of a bank branch of a nationalised bank in India;
- from the branch whose manager was interviewed previously;
- is supervised by the branch manager in all his/her lending operations; and

- agreed to give his/her perception about the relationship with the Branch manager, for a period of approx. one hour.

Both the branch manager and the loan officer have worked with each other for a period of six months in the loans department that would result in the development of a trusting relationship between the two.

4.4.3.2 Selection of Interview Format

In selecting a proper format for the interview, the researcher has to consider the relative advantages and disadvantages of each type of format and its suitability for the research question. According to Odendahl and Shaw (2001), there are three main formats of interviews in use. These include – unstructured, semi-structured and structured interviews. As Moyser and Wagstaffe (1987) notes “the choice between them is ultimately a decision about which data generation strategy best fits the research design.” According to Morse (2001, p. 325) “Researchers use structured interviews when they have considerable knowledge of the research topic but need further information in specific areas’ Breakwell (1995, p.231) suggests that “structured interviews involve a fixed set of questions which the researcher asks in a fixed order. In the case of structured interview approach the questionnaire is prepared before data collection and does not change during data collection, all participants are asked the same questions in the same order and data are not collected and analysed simultaneously but are analysed all at once at the end (Morse, 2002, p.325). The advantage of using structured interviews for obtaining information is that they are easy to quantify and responses can be compared easily with others. The disadvantage of structured interviews is that they are often not as rich and in-depth as data collected through unstructured interviews. Structured interviews also require larger samples (Morse (2001).

The unstructured interviews allow persons being interviewed to tell their story at their own pace, in their own way and in their own time (Odendahl and Shaw, 2001). The unstructured interview can be used when the researcher has a number of issues to be covered but does not have a set sequence of questions to which he or she seeks the response (Breakwell, 1995). The researcher expects that the data will be generated via interaction. Breakwell (1995) attributes time-consumption as the disadvantage of an unstructured interview.

Since both the structured and unstructured interview techniques have their relative merits and demerits, the semi-structured interview technique was used in this research study because the interviewees are perceived to be experts on their subjects. The interviewees were allowed maximum opportunity to give their own perception on the questions asked. According to Smith (1995, p.12), “with semi-structured interviews, the investigators will have a set of questions on an interview schedule but the interview will be guided by the schedule rather than dictated by it”. The advantage in using semi-structured format of interview is that the researcher can collect detailed perceptions from the interviewees about a particular questions and the researcher can follow up an interesting topic which may emerge during the course of interview. This way the quality of data collected can be improved.

The semi-structured format was chosen in this study to understand the perception of branch managers and loan officers of bank branches in India to record their perceptions for a number of reasons. The interview questions were developed using Trust theory and these “what if how” questions can be best answered using the semi-structured format because both branch manager and loan officer are experts on their subjects. They have limited time at their disposal to answer the questions and were willing to give the information at their disposal within the limited time available for the

interview. The use of semi-structured format did not constrain the branch managers and loan officers to put forward their own perception about various questions/issues discussed during the interview. The interviews were recorded after developing a good initial relationship with the interviewees before the start of the interview.

4.4.3.3 The Interview Schedule

The purpose of the interview schedule is to use it as guidance in obtaining uniform information from the interviewees. Smith (1995) has suggested three components in constructing an interview schedule: (1) determination of the topic of the interview; (2) putting areas of analysis in an order; and (3) developing questions relating to each area of analysis. Smith (1995) further suggests that the qualities of interview questions should be: (1) the interview questions should be neutral than to be leading; (2) the interviewees should feel familiar and comfortable with the questions; and (3) the questions are open-ended to encourage the interviewees to freely express his or her thoughts and feelings. Smith's suggestions were used in designing the interview questions for branch managers and loan officers as guidance.

The interviews with branch managers are used to explore four topics, namely: (1) importance of trust between branch manager and loan officer in lending; (2) the effect of trust between branch manager and loan officer on the lending performance of the branch; (3) various factors that contribute to the trust between branch managers and loan officers; and (4) the stages in which trust develops between the branch manager and loan officer. Similarly interviews with loan officers are used to explore four topics, namely: (1) the importance of trust in lending relationship between branch manager and loan officer; (2) the effect of trust between branch manager and loan officer on the lending performance of the branch; (3).various factors that contribute to the trust

between branch manager and loan officer; and (4) the stages in which trust develops between loan officer and branch manager.

4.4.3.4 Conducting the Interviews

Gordon (1980) has provided guidelines for conducting the interviews, which were followed while conducting interview of branch managers and loan officers. Gordon defines the interviewee's task into two components: one, obtaining information and second, maintaining validity of the information obtained. Gordon (1980) suggests that in conducting the interviews the researcher should act as a facilitator for the interviewees. By being a facilitator the researcher can expect the interviewees to give the relevant information to the researcher based on the questions asked. The interviewees may not be used to giving interviews and may find the interview process daunting. Gordon (1980) stresses the need for maintaining the validity and reliability of the information given by the interviewees. This can be achieved by observing that the information given is comparable and classifiable. Any differences in the answers given by various interviewees should be attributable to the differences among the interviewees only and not due to the interview questions asked.

In this study, various steps were undertaken to obtain relevant information from the interviewees. First, the researcher contacted various prospective interviewees to seek his or her willingness to be interviewees through intermediaries. In doing that the purpose of the interview, its approximate duration and the nature of questions to be asked was conveyed to the interviewees. Then a time and place of each interview was decided and agreed upon. At the beginning of each interview the purpose of the study was explained to the each of the interviewees again and the process of interview was agreed upon. The following process was adopted. First the researcher would ask a question and the interviewee would give a response to the question. If the interviewee

did not understand the question or wanted some clarification, the researcher would explain the question and provide the clarification. The answer to the question would be recorded. If any question arose on an issue during the interviewee's response, the researcher would seek a clarification. If at the end of each interview if the interviewee wanted to give any additional information, the same was welcome.

The researcher, according to Gorden (1980) need to perform many tasks to maintain the validity and reliability of the information collected. Gorden's guidelines were observed in collecting the data in a way that would maintain the reliability and validity of the data collected. This was achieved first by developing a congenial atmosphere during the interview process and maintaining a good interpersonal relationship with the interviewee. The interviewee was made to feel important as an expert on the subject. The researcher paid full attention to the interviewee during the course of the interview. If, for any reason the interviewee sought a clarification on any question, the same was provided with adequate explanation about the question. If the interviewee felt uncomfortable about any questions his or her concerns were adequately addressed during the interview. In doing that, it was ensured that the interview schedule was maintained and the process did not drift away from the interview schedule.

4.4.4.4 Recording the data

Before transcribing the data, each interviewee was asked about the method of recording. Since most of the interviewees preferred that the interview records be maintained in writing and not recorded on tape, the interviewer had to take notes during the process of interview. The suggestions from Blackwell (1995) and Kvale (1996) in regard to transcribing the interview were followed in the present study. As far as possible, the interviews were recorded verbatim. The response of the interviewees was written in order to preserve the validity and reliability of the information provided.

According to Kvale (1996) the researcher should consider the purpose of the record and the usefulness of the record for finding the answers to the research questions. The confidentiality of the institutions and the interviewees are preserved by disguising the names of the interviewees as Branch Manager /Loan Officer of Branch A.

The aim of the case study data analysis is to find observed pattern on trust relation between branch managers and loan officers of branches studied. The observed pattern relate to the effect of trust between branch manager and loan officer on the lending performance of the branch, key factors of trust between the branch manager and loan officers, the stages of trust relationship development between the branch manager and loan officer of the bank branches. The observed patterns are then matched to the theoretical pattern. This would help in providing an explanation of the observed results.

4.5 Pattern Matching

A pattern is “an arrangement of objects or entities. The term arrangement is used to indicate that a pattern is by definition non-random and at least potentially desirable” (Troachim, 1989, p.356). Pattern matching is a technique developed by Troachim to match theoretical constructs with the observed data. Pattern matching links and relates theory with the observed data. The theory predicts the relationship between key constructs and is a basis for generating patterns of prediction. Based on the patterns predicted by the theory, the pattern derived from the observed data is matched to the predicted theoretical pattern. If there is a good match between the constructs of the theoretical pattern and the observed pattern, one can conclude that the observation supports the theory and theory is valid within the realm of the observed data. Based on Troachim’s pattern matching model, the following model was adopted for matching.

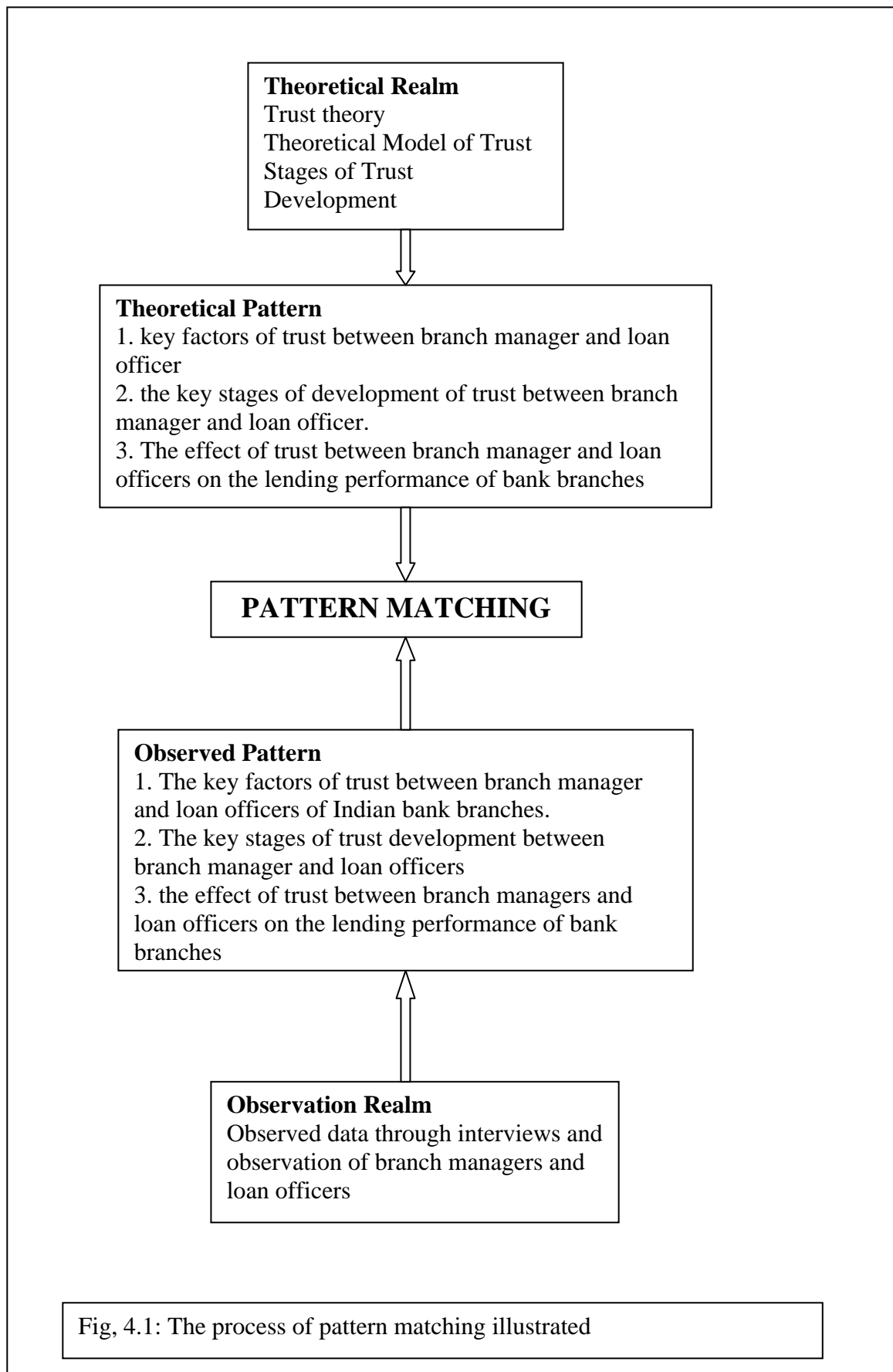
Troachim’s (1989) Pattern matching model has two parts (Fig. 4.1). The top part of the model describes the theoretical realm. This theoretical realm is based on a well

developed theory, the idea of a researcher or a combination of both. (Troachim, 1989). The lower section of the pattern matching model describes the observed pattern derived from data collection. At the centre of the model is the process of matching the theoretical and observed pattern.

In this study, the theoretical realms are the model of trust developed by Mayer, Davis and Schoorman (1995) and the stages of development of trust proposed by Lewicki and Bunker (1996). The trust model of Mayer, Davis and Schoorman and stages of development of trust are combined with the trust factors suggested by Valez (2000) to develop a theoretical framework of trust as given in Fig 3.1. This framework is specific to the trust between branch managers and loan officers of Indian banks. The theoretical constructs are then related to the observed pattern of effect of trust between branch manager and loan officers on lending performance, the key factors of trust between branch managers and loan officers and the stages of development of trust between branch managers and loan officers.

4.6 The process of pattern matching

The first stage in the process of pattern matching is to reduce the observed data, the second is to categorise the data and the third step is to match the observed data with the theoretical construct.



4.6.1 Data Reduction

The entire data collected through the interviews is reduced in accordance with the research question and these are then incorporated in a summary of interview data. According to Miles and Huberman (1994, p.10-11) data reduction refers to the process of selecting, focusing, simplifying, abstracting and transforming the data that appears in the written field notes or transcripts. Qualitative data can be reduced and transformed in many ways through selection, through summary or paraphrase, through being substituted in a larger pattern.

The raw data obtained from the interviews needs to be reduced in order to answer the research questions. A logical connection needs to be established between various pieces of data obtained and among the observed pattern. The results of the data collected are presented Chapters 5 and 6.

4.6.2 Pattern Coding

Pattern coding is the second stage of the pattern matching process. Pattern coding involves generating codes from the summary of interview data, with the purpose of finding the observed pattern of the case. The observed pattern consists of the effect of trust between branch managers and loan officers on the lending performance of the bank branches in India, key factors in the development of trust between Branch managers and loan officers of bank branches and key stages in the development of trust between branch manager and loan officers of Indian bank branches. Pattern coding helps the researcher in reducing the data into smaller number of observed patterns. According to Miles and Huberman (1994), "Pattern coding is a way of grouping summarised data into a smaller number of sets, themes or constructs". Pattern coding serves four important purposes. First, it reduces large amount of data into smaller number of analytical units. Second, it gets the researcher into analysis during data collection so that later fieldwork

can be focused. Third, it helps the researcher elaborate a cognitive map, an evolving more integrated schema for understanding local incidents and interactions and fourth, for multiple case studies, it lays the ground work for cross case analysis by surfacing common themes and directional process (Miles and Huberman, 1994).

The process of pattern coding used in this study include defining the unit of analysis, then determining the categories of unit analysis and then determining the observed pattern as the third step. The unit of analysis is defined as the interview question. For example, the branch manager was asked by the researcher a question about the factors of trust in a loan officer. This question is considered as a unit of analysis of trust factors of trust of branch manager in the loan officer. The categories of various unit of analysis are defined on the basis of the theoretical pattern of various factors of trust of branch manager in the loan officer. For example, similarity will constitute one unit of analysis and knowledge would constitute the second unit of analysis and so on. The observed pattern fits into various unit of analysis based on the interview questions.

4.6.3 Matching theoretical and observed patterns

According to Yin (2003), if a comparison between observed pattern and the theoretical pattern coincides, the result can assist to strengthen the case study's internal validity. The theoretical pattern in this study was developed based on the trust model of Mayer, Davis and Schoorman (1995) and illustrated in Fig. 3.1. The observed pattern was developed using the data obtained from the interviews of branch managers and loan officers and using pattern coding described in the previous section. The observed pattern of the key factors of trust between branch managers and loan officers were related to the theoretical pattern of the key factors of trust developed through the model of Mayer, Davis and Schoorman (1995).

The literature describes three types of matching – matching dependent variables, matching independent variables and simple pattern matching. The observed pattern obtained from pattern coding is considered as independent and hence following Yin (2003), independent variable pattern matching was used to match the observed pattern with the theoretical patterns.

There are certain limitations to the data subject to pattern matching can be used. Since the patterns can be theoretical patterns or other variables, there is no correct way in which theoretical patterns can be used. Also there is no specific method of matching that can be used. In the absence of a specific method of pattern matching, researcher's discretion and interpretation plays a considerable part in providing evidence of a pattern matching.

4.6.4 Data Analysis using NVivo

In the present research, NVivo was used to analyse the data collected through interviews of the eight different cases. Each case represents one branch and interviews of branch manager and loan officers were recorded for each branch. These cases were then analysed. A number of steps are required in analysing the data through NVivo. These steps are: data preparation, importing data into NVivo, coding, developing a coding system, storing codes in nodes, classification system for nodes, within case analysis and cross case analysis.

4.6.4.1 Data Preparation

NVivo can handle different data sources and different types of data. Data for the project is created in NVivo from ideas and observations that are recorded in text format. The data records in NVivo are held in documents. These documents are prepared from the material collected through ideas, themes, interviews and other evidence gathered during the course of the project. The original documents are prepared in the word

format. Each word document is a record of interview with a particular person in the present case, a branch manager or a loan officer of the bank branch. A document containing transcription of interviews is given a title, a description and formatted in a particular style so that data can be used for later analysis without any alteration.

The data recording in word format require special preparation because researcher collects interview responses from many sources and data from each source is recorded at different times. These documents containing data from different sources need to be formatted in particular uniform way otherwise it becomes difficult to use the data in NVivo when coding is done. It is not necessary to use the verbatim transcripts of interviews in NVivo. Notes recorded and prepared from the interviews are considered adequate for use in Nvivo. According to Beazley et al. (2007), interview notes prepared from the responses given by participants to the interview questions are sufficient for the purpose of analysis in NVivo if the sequence in which these responses are recorded is prepared and the recording is meaningful. Instead of using verbatim transcript, Beazeley (2007) recommends using the interview notes as primary data source because the notes are usually short, well structured and short notes can be easily handled in NVivo instead of verbatim transcript, which can be very unwieldy sometimes. It is advantageous to use notes because notes can help in data reduction. The problem with reduced data is that when the data is coded in NVivo for analysis and classification, a reduced data set is available for coding. In the present thesis, notes from interviews were used as the data source. These notes were prepared from the interview responses of branch managers and loan officers of bank branches and are considered sufficient for the present analysis (Beazeley, 2007).

Formatting the data is an important aspect of data preparation because formatting helps in putting the data in a proper shape. Formatting helps in initial

classification of data into subtitles and groups according to the context and content of the interview notes. Important statement in interview notes can be emphasised through proper formatting. While making the notes from interview question response the word document containing notes were prepared with appropriate font size, type, style, colour and spacing, justification, tabs. The formatting becomes very useful when the word documents are imported into NVivo for analysis.

The second aspect of preparing the documents is the use of heading. Each issue covered through an interview question is formatted under a heading style. A heading is used to indicate a topic or the question under discussion for which an interview response was obtained. Headings are very useful in recording and formatting the interview responses because they help in labelling each issue covered in the interview. Headings are also useful in coding interview response for analysis in Nvivo.

The documents containing interview notes were prepared using word format and a distinct file name for each document was given in order to identify the documents for later use. Since NVivo sorts the documents alphabetically, it is essential that word documents prepared for use in NVivo are named in similar way for similar interviews. The file names for interview responses of branch manager started with the prefix branch manager and file name for loan officer interview response started with loan officer. In addition to naming the files description for each document can also be recorded in Nvivo separately. This document description gives information about the file such as location, name of the interviewer etc.

4.6.4.2 Importing documents in NVivo

The documents were originally prepared in MS word format and then imported into NVivo for later analysis. There are many advantages of preparing documents in MS word format first and then importing them into NVivo. The first advantage is that there

are certain formatting features available in MS Word format which are not available in NVivo. Word has access to spell check, heading styles, find and replace functions which are not available in Nvivo. The other advantage is that by preparing the document in word format initially a backup copy of the document is created in the word format. If for any reason the document is lost in NVivo then the backup copy from Word format can be used in NVivo. After the document is imported into Nvivo a document record for each document is created in NVivo which can be used to identify the document in NVivo.

After importing the documents in NVivo the documents can be stored in folders. These folders can be created in the Source area of Nvivo. Documents can be placed in separate folders or in one folder. In the present research, all the interview documents were placed in one folder for later use. The documents can be listed on List View of NVivo where documents can be sorted automatically. Once applied, the sort order is remembered and stored in Nvivo. Documents can also be printed from NVivo and compared with the word format for any changes. (Richards, 1999)

4.6.4.3 Coding the data

Coding is an important aspect of data management and analysis. According to Strauss (1987; 27), “any researcher who wishes to become proficient at doing qualitative analysis must learn to code well and easily. The excellence of research rests on large part on excellence of coding.” The present research involves collecting data on interviews of branch managers and loan officers. This data need to be analysed for various concepts and themes observed through the interview process of branch managers and loan officers. These themes and concepts will help in analysing the observation with the theoretical pattern developed from the model of trust between branch manager and loan officer developed earlier. Coding the data is an important step

in that process because codes developed will help in indentifying the themes from the data. According to Ryan and Bernard (2000), “a code is an abstract representation of object or phenomenon. It is a mnemonic devise used to identify theses in a text” with the help of codes various themes in the text can be identified and labelled into categories. Codes help in creating classification in the data text. Each category developed through a code can be related to a particular concept developed through the research question or theory. Codes act as linkages between ideas to data and back. Codes can also link to each other so that linkages between different categories or ideas can be developed through codes.

4.6.4.4 Developing a Coding System

Coding can be developed either through identifying themes from the data after the data is collected or codes can be developed from the study of literature. The advantage of developing codes through the prior study of literature is that this approach brings a theoretical basis to coding and data investigation and analysis. In the present thesis the later approach to coding was applied where codes were developed through research questions and theoretical model of trust. The purpose of this thesis is to explore, develop and test the data with the theoretical model of trust. Therefore codes based on the theory are used as basis for identifying themes from the data collected for comparison between theory and observation. Knowing codes before hand also have the advantage of keeping the focus on specific themes in the data collected. The disadvantage of developing codes from the theory is that it can confine the text to specific themes. But if in the observation of data if any new themes are identified these can be incorporated into coding easily.

The purpose of coding is to identify the regular pattern in text and associate this pattern to develop themes. For this purpose one segment of text is compared in

documents or across documents with text in other part of a document or other documents. The similarities and differences in the text are identified by this comparison. Similar texts are coded in one node and different texts are coded in different nodes.

4.6.4.5 Storing Codes in a Node

Coding of the text in NVivo is stored in nodes. A node is a terminal point or connection where a branching occurs in a dataset. The nodes are the points at which the data is branched into sub concepts. First a node is made for each concept in NVivo. The Nodes store reference to the actual location of the text coded. The purpose is to retrieve and locate the coded text from the recorded text. In creating a node the passage is never copied to the node as the document source storing the text remains intact. The information of the documents source and location of the coded text remains at its place. One passage can be coded at different nodes if the passage is relevant to different concepts. (Richards, 1999)

Nodes in general are used to store coding about topics or concepts or themes. Nodes can also be used for organising the data. Nodes help in bringing similar data from different document sources in one place. The List View for nodes provides the number of sources and documents and references used in creating each node. The creation date and modification dates of each Node is shown in List View.

First all data is coded at Free Nodes. Free nodes are nodes that do not presume any connection or relationship with other nodes. The purpose of coding data in free nodes is to easily drop all the data as a first step. Once the data is coded at free nodes, tree nodes are created from free nodes. Tree nodes are hierarchical structure for nodes. The parent node in tree node is a connecting point for categories and sub categories. A tree node will have a number of child nodes which are sub-categories under a tree node.

A node can be created as a subcategory of another node. A tree node can have any number of subcategories. The purpose of creating tree node is to organise concepts into groups and sub-groups. The tree node is a sort of filing system of different ideas and concepts derived either from theory or observation. The structure of tree nodes can be revised depending upon the need of organising the concepts. There are many benefits of using the tree nodes to create a classification system for the data. The tree structure helps in establishing a hierarchy of data set and developing the logic of data. The tree Nodes also help in developing the conceptual clarity of the data set. Tree nodes are useful in clarifying identifying common properties, see missing categories or concepts, sort the data and avoid any overlaps. Tree nodes help in providing structure to the data set which further help in identifying the pattern of association between different themes and analyse these patterns. (Richards, 1999)

4.6.6 Within case Analysis

The purpose of within case analysis is to develop deep understanding of a particular case. This understanding is developed by analysing the text within the case. The purpose is to establish the connection between variables represented through nodes. This connection helps in analysing how different players use a particular expression and how that expression conveys meaning in relation to the theoretical framework developed. In the present study, all the within case analysis was done by comparing the theoretical pattern with the observed pattern in each case in relation to the trust factors, in relation to the stages of trust and in relation to the performance of branch in the lending area. Within case analysis helps in resolving the complexity of each case and observes the unique insights and pattern that the case data offers, (Ayres et al, 2003)

4.6.7 Cross case Analysis

Miles and Huberman (1994, p.172) describes that the purpose of studying multiple cases is to increase the ability to generalise the findings of a research study. The events and processes described in one case setting may be specific to that particular case but those events and processes are repeated in other cases, this would help in increasing the generalisation of the research done. The study across cases helps in understanding the events in a particular local condition and how these local conditions affect the events. This kind of study helps in better description of events and provides powerful explanations. In Nvivo these connections across cases can be developed through using techniques like sets, relationship nodes and models. In this study models have been used to establish connection across cases.

The cross case analysis is done through variable oriented analysis. The group of observed cases are compared based on common attributes or common codes. These codes are developed through theoretical framework used in this study. Specific factors such as factors of trust are compared across different cases for observation of common pattern and also for outliers. The purpose is to understand the common factor across different cases. If there are any outliers then the reason behind those outliers can also be explored to develop better understanding of a particular deviation from common pattern. The instances of individual cases going against the trend need to be examined in detail and any contradictions need to be understood. (Ayres et al, 2003)

4.7 Summary of the Chapter

The purpose of this chapter is to define and explain the research design and methodology used in this research. This chapter defines the data required in this study, how the data was collected and what are the major steps required in data collection. It also explains the steps involved in collection, selecting, recording and organising the

data. Also, the reasons behind selection of case study as a research method are explained. Finally, various steps involved in the analysis of data collected are described.

This study uses a qualitative research method because it focuses on the relationship between branch managers and loan officers of Indian bank branches. Quantitative method of research cannot capture the complexities of this relationship between branch managers and loan officers. This relationship depends on the organisational culture in Indian banks where cultural, social and political factors are influential in defining the relationships. The effect of these factors on the relationship between branch managers and loan officer cannot be measured quantitatively but can be understood by using a qualitative interpretive research design. This study therefore attempts to capture the nuances of the relationship between branch managers and loan officers through a qualitative research approach.

A case study approach is used in this thesis to collect and analyse the data. This approach is considered suitable because this research involves in-depth study of the factors that influence the relationship between branch managers and loan officers. The case study method provides the ability to understand the path and mechanisms and to investigate the interaction between branch managers and loan officers in the real life setting of bank branches. The study of multiple cases provides the opportunity for comparison between theory and observed behaviour between cases. This comparison helps in associating cause and effect relationship across variables.

The research design of the case study has four elements – a study question, a proposition, data collection method and data analysis. The study questions examined in this thesis are: What are the factors of trust in the relationship between the branch managers and loan officers, what are stages of trust development between branch

managers and loan officers and how the trust between branch manager and loan officer affect the lending performance of bank branches in India.

For the purpose of this study, eight bank branches were selected for study based on the accessibility of branch managers and loan officers and their desire to participate in the study. This number is not a representative of Indian banking industry which is very big but is considered adequate for the purpose of this study. The interview technique was used in collecting the data for the case study. The interview technique provides the opportunity to conduct an in-depth investigation of the relationship and interaction between branch managers and loan officers of Indian bank branches. Interview technique is flexible and interactive and can be modified according to the need of the data collection process and the interviewees. A semi-structured format of interview was chosen in this study to collect and record the data (Yin, 2003, p.48).

The data was analysed using the pattern matching technique developed by Troachim (1989). Pattern matching links and relates theory with observed data. Theory predicts the relationship and the observed data are matched with the theoretical model. In this study, framework of trust between branch managers and loan officers developed in chapter 3 of this thesis, stages of trust development proposed by Lewicki and Bunker (1996) and the effect of trust on lending performance of bank branches as proposed in chapter 3 constitute the theoretical realm. The theoretical constructs are then related to the observed pattern on the factors of trust in the relationship between branch manager and loan officer, stages of trust development between branch managers and loan officers and the effect that trust might have on the lending performance of bank branches in India.

In the present research, NVivo was used to analyse the data collected through interviews in eight different cases. Each case represents one branch and interviews of

branch managers and loan officers were recorded for each branch. These cases are analysed using NVivo. First, each case was analysed individually through a “within case analysis”. Within case analysis helps in resolving the complexities of each case and helps to observe the unique insights and patterns that each case data offers. Next, cross case analysis was done across all cases through a variable analysis. The group of cases are compared based on common attributes and common codes. For example, factors of trust are compared across different cases. The purpose is to understand the common factors across different cases and also to understand the reasons for any outliers. The data collected on cases is described in chapter 5. Chapter 6 provides within case analysis of each case. Chapter 7 describes cross case analysis across all cases through variable oriented analysis.

Chapter 5

Case Study Descriptions

5.1 Introduction

The purpose of this study is to investigate the role that trust plays in the relationship between the branch managers and loan officers of Indian bank branches. This study seeks to identify the key factors of trust that determine the relationship between the branch manager and loan officers of these branches. This study also provides an understanding of the role that trust factors play in the development and growth of the relationship between the branch manager and the loan officers. This study also identifies the perception of the branch manager and the loan officer about the impact that absence or presence of trust may have on the lending performance of the bank branches in India.

The research method used in the empirical investigation of the role that trust plays in the relationship between the branch manager and the loan officer, is given in the previous chapter. In this chapter the observation made during the data collection by the researcher in regard to the background information of the bank branches in India studied as cases is given. Eight branches of banks in India were selected as case studies and the criteria used in the selection of the branches, is described in the previous chapter.

The purpose of the current chapter is to provide a detailed description of the eight case studies that provide the foundation for empirical data collection and analysis in this thesis. In each of the eight cases, this chapter gives the relevant background information about each bank branch. The understanding of the background information is necessary because branch managers and loan officers operate in a unique business

environment. To appreciate the role of trust factors in the relationship between branch manager and loan officer it is necessary to have a grasp of the business environment and conditions in which their relationship is formed, develop and functions because the business environment and conditions influence the way in which branch managers and loan officers operate and interact with each other.

The background information on the bank branches in this chapter is divided into two parts. There are certain common elements of organisation of each bank branch and functions performed by various bank branches. These common features of branch organisation are described in the section 5.2. These features are about the functions carried out by various departments in each branch and the role and responsibilities of branch manager, loan officer and assistant branch manager. The distinct features of each branch relating to their location, size, nature of branch business and organisation are described in section 5.3. The distinct features of branch organisation and functions are described separately for each branch because these features are determined by the unique location, business environment and condition in which the branch operate. The business environment and conditions influence the relationship between branch managers and loan officers.

The current description in this study, arise from observations made by the researcher about the organisation of the branches and the nature of business conducted by these branches. The personal interviews conducted by the researcher with branch managers and loan officers, in a series of eight case studies, is also an important source of these observations. Each of these branch managers and loan officers were interviewed separately and independently. The description of the background information relates to the observation of the organisation of the branch and business activities of the branch. Information about these was collected by the researcher from

the branch manager, loan officer and other sources of the bank branches selected as cases. Section 5.2 describes the background information relating to the common elements organisation of the branches. In section 5.3, the unique features of each branch on its location, business activities and business environment are described

5.2 Common features of the branch organisation.

The organisation of bank branches in India has certain common elements which are common to most of the branches. In addition, there may be certain differences in organisation of branches based on location of the branch, business needs and business volume and unique requirements associated with a particular branch. The relationship between branch manager and loan officer will be determined by the business environment in which they operate. In this section the common elements of branch organisation such as the functions of departments of branches and roles of branch manager, loan officer and assistant branch manager are described.

This section is divided into two parts. Section 5.2.1 describes the common features and functions of various departments in branch organisation. Section 5.2.2 describes the role and responsibilities of the branch manager, loan officers and assistant branch manager. Each of the eight branches studied as cases are managed by a branch manager, who is in-charge of the branch. The branch manager is assisted in the management of the branch by an assistant branch manager. The assistant branch manager of the branch acts as branch manager in the absence of the branch manager. Each of the branches is organised into several departments/sections. Each of these departments/sections is managed by an officer, who is assisted usually by two assistants.

5.2.1 Functions of branch departments

In this section the common elements of branch organisation are described. Each branch has a number of departments such as cash receipt and payment department, saving bank department, current account department, fixed deposit department, drafts/mail/telegraphic transfer department and bills and clearing department. In addition, the main functionaries responsible in the management of the branch are branch manager and assistant branch manager. The assistant manager of the branch is usually in-charge of general administration, personnel, short term borrowings, locker and safe custody department and cash management. The savings department and cash receipt and payment department are usually managed by saving bank officer. The current account department is managed by a third officer while fixed deposit department is managed by another officer. Different officers manage bills and clearing departments, drafts/mail/telegraphic transfers department. The loan section is managed by a loan officer. Each of these officers is usually assisted by 2 assistants in each department/sections depending upon the requirement of each branch. The function of each of the departments in branch organisation is described next.

5.2.1.1 Saving Bank Department

The Saving Bank department is usually managed by a single officer who may also be responsible for the cash receipt and payment section. All the saving bank accounts are handled by the saving bank department. Every branch has a huge number of saving bank accounts. There are usually 500-600 transactions in saving bank accounts of each branch every day. These transactions include cash receipts for credit to saving bank account, cash payments from saving bank accounts, fund transfer from the account, payment towards standing instructions, issue of saving bank account statements and pass books. The saving bank officer authorises all the receipts and payments from the saving bank accounts, authorises opening of new accounts, close

accounts, transfer funds from and to other banks/branches from these accounts on customer request.

5.2.1.2 Cash Receipt and Payment Department

In some branches a saving bank officer may also look after cash receipt and payment section. In other branches where the volume of business is high there could be separate cash receipt and payment section. The cash is received and paid by cashiers sitting in cash cabins for security reasons. The cash department also handles remittances to Reserve Bank settlement account maintained at State Bank of India. The cashiers also sort cash into usable and non-usable notes and handle storage of cash after hours. The chief cashier is the joint custodian of cash safe keys along with the assistant branch manager and branch manager.

5.2.1.3 Current Account Department

The second section is current account section. This is usually managed by a current account officer who is usually assisted by two assistants. The current account officer authorises all the receipts and payments to and from current accounts, authorises opening of new accounts and closure of account on customer request and authorises transfer of funds from current account to other accounts in the branch or other branches/banks. A majority of receipts and payment to and from current accounts are made through clearing and settlement account because current account customers receive large number of cheques and draw large number of cheques which are collected by other banks. The current account department also maintains overdraft account for customers who have overdraft facilities or line of credit with the branch.

5.2.1.4 Fixed Deposit Department

The third department is fixed deposit department. This is usually managed by an officer and two assistants. All the fixed deposits, recurring deposits, retirement plan accounts are maintained in this department. Any new opening of fixed deposits, foreclosure of fixed deposits accounts, periodic transfer of funds from fixed deposit accounts to other deposits accounts/branches/ banks and closure of accounts on maturity are done in this department. If a fixed deposit is not collected on due date, an overdue deposit account is maintained by this department till the beneficiary either renews the account or takes the payment is cash.

5.2.1 5 Clearing and Bills Department

The next department is clearing and bills department. The clearing department receives the cheques drawn on local banks/branches and collects the payment of these cheques from other local banks for branch customers. In doing so, the branch acts as agent for collection on behalf of the customer. Also, the cheques drawn by customers of the branch and received from other banks for payment are paid through this department. One person from this department attends the local clearing house every working day at the central bank agency bank (usually State bank of India or a branch of Reserve Bank of India) to receive the cheques and present the cheques. All the transactions with other banks are settled through the Clearing and Settlement account maintained at the agency bank.

The bills department receives inward bills drawn on the customers of the branch and arranges to present these trade bills to customers, collects the payment on bills on due dates, delivers the documents to customers and remits the payment to the drawers on the bills of exchange. The inward bills are documentary bills of exchange drawn by a seller on a buyer. The bills are drawn by seller on buyer for payment/acceptance. The

bills of exchange are sent through a bank branch for collection. The buyers are the customers of the bank branch and bills are drawn on them. Upon payment/acceptance of bills of exchange the collecting bank branch delivers the documents under collection to buyer. The documents provide title to goods to be delivered to buyer. When bills are drawn against payment, the payment is collected by the bank branch and sent to the buyer. When bills of exchange are drawn against acceptance, the buyer agrees to pay the bill on a due date. Bank delivers the document to the buyer against acceptance. On the due date, the buyer pays the money to the bank branch and bank remits that money to the seller. In doing so, the bank derives a fee income from inward and outward collection

The Bills section also collects the payment of outward bills of exchange drawn by branch's customers on others, send these bills to other branches of the bank/other banks and arranges to collect the payment of the bills for the customers. The inward and outward bills of exchange arise from trade transactions contracted by branch's customers, who usually maintain current account with the branch.

5.2.1.6 Drafts/ Telegraphic Transfer Department

The drafts section issues and pays demand drafts and telegraphic transfers purchased by the customers of the bank for the purpose of remitting money from one place to another. The drafts section also maintains general ledger account on the money remittances and receives and credits money to Head Office of the bank for remittances issued and paid by the branch.

Demand drafts are cheques drawn by banks on its branch in another place. Demand draft is purchased by a customer of a bank for the purpose of remitting money from one place to another, when the recipient of money insists on payment by bank draft. The bank charges a fee for issuing and paying drafts. After the introduction of

electronic fund transfers, the incidence of remittance through demand drafts has declined considerably. Still the use of cheques and demand draft as a mechanism of payment continues in India.

A telegraphic transfer is a form of remittance of money from one place to another through the use of e-mail/phone/fax/telephone. The sender or remitter of money applies to the bank for remitting an amount to recipient in another place. The recipient is required to have an account at the bank branch where the money is to be received. The sender pays money to the remitting bank and remitting bank sends the money to recipient's bank branch for credit to recipients account through SWIFT network usually.

5.2.2. Functions of officers in the branches

In this section the functions of two most important officers in the branch – branch manager and assistant branch manager are described. In addition functions and responsibilities of loan officer are also described in detail because this thesis relates to the trust between branch manager and loan officer. The description of the function of the branch manager and loan officers will help us in understanding the context in which branch managers and loan officer operate and their relationship is determined.

5.2.2.1 Functions of Assistant Branch Manager

The assistant branch manager of the branch is responsible for internal administration of the branch. The assistant branch manager is responsible for the joint custody of strong room keys and cash safe along with the branch manager and the chief cashier. The assistant branch manager also invests money on behalf of the bank branch, borrows money from local banks when there is excess or shortage of funds with the branch. The assistant branch manager also supervises the safe custody and locker department of the branch as also the stationery and records section along with the mails dispatch and receipts sections of the branch.

5.2.2.2 Functions of the Loan Officers

The loan officer of the branch supervises the loans department and reports directly to the branch manager on loan management. The loan officer processes the loans applications received at the branch. He/she assesses the loan application based on bank's lending criteria on a specific lending activity. In assessing the loan application, the loans officer assesses the following parameters of client's activity. Character, capital, capacity, collateral, conditions and compliance associated with the loan proposal. These are explained below

5.2.2.2.1 Character

Character is the distinct qualities of a person that distinguishes that person from another. Character in banking context would mean borrower's honesty, responsibility and willingness to pay loans. In western world credit bureaus and credit reporting agencies like Dun & Bradstreet would provide information to banks on character of the borrowers. In India a loan officer would collect information about borrowers and provide an assessment to branch manager on a borrower's willingness to pay (Gup et al., 2007, p. 294).

5.2.2.2.2 Capacity

Capacity would mean borrower's ability to meet financial obligations and conduct their business in a profitable manner. Borrower's capacity would be evaluated by banks based on their financial statements or income tax returns. If the borrower had been dealing with the bank for a while, his or her account movements will provide the information to the bank about their business capacity.

5.2.2.2.3 Capital

Capital is the equity capital of the firm invested by the owners in the business. In the event of a business failure and liquidation, the creditors including banks would liquidate the business capital to collect their debts. Banks normally insist on a loan to value ratio of 80 per cent and ask the borrowers to contribute at least 20% of their share

in the assets purchased through bank loans. Capital serves two purposes. First, it reduces the risk for the bank to the extent of borrower's capital and second it induces the borrower to use and maintain the asset profitably because borrower also has his or her own stake in the asset value.

5.2.2.2.4 Collateral

Collateral refers to an asset pledged as security against the performance of lending contract. If a borrower defaults on a loan, the bank takes possession of the collateral, sells it and realises the value to meet its loan obligations. The characteristics of good collateral are durability, proper identification, marketability and stability of value.

5.2.2.2.5 Conditions

Conditions refer to the factors that are external to a business outside its control. Economic conditions and market conditions beyond the control of a borrower may adversely affect the borrower's business. The loan given to a borrower may thus not be realised as originally contracted. The bank needs to consider a best case scenario and a worst case scenario of borrowers' business activity and its likely outcome of repayment of loan given to the borrower

5.2.2.2.6 Compliance

Compliance with laws and regulations are a must for the bank and the borrower, if they want to stay in business. Banks need to comply with legislations such as Banking Act, Consumer Credit Laws, Privacy Code etc. the borrowers need to comply with Environmental protection laws, safety regulations, labour laws and other legal requirements in the conduct of their business. Failure to comply with regulations may lead to closure of borrower's business and may jeopardise the recovery of loan for the bank.

The six C's of loan assessment – Character, capacity, capital, Collateral, Conditions and Compliance - are observed by loan officer through description of

client's business position in the market and industry, assessment of client's management and ownership, client's previous record of doing business with the bank, if any. Also the loan officer has to obtain credit report from other financial institutions or sources, assess the purpose for which the loan is required. Along with that the loan officer has to assess the guarantor's creditworthiness, value of collateral security offered, if any and evaluate borrower's contribution to the project.

The loan officer assesses the loan application based on bank's lending criteria and on borrower's relationship with the bank. He/she also structure the loan about the repayment, quantum of loan agreed, interest rate and fees etc, which may be agreed upon if the branch manager decides to accept the application. The structure would depend on the type of loan, terms of loan, the method and timings of repayment, interest rates and fees to be charged, collateral, if required and covenants to be agreed by the borrower in regard to conduct of the loan. Based on loan officer's recommendations and his/her own judgment, the branch manager may decide to accept a loan application if it falls within his discretionary powers or else the branch manager may decide to recommend the loan to higher authorities for consideration.

In addition to processing the loan application, the loan officer also reviews loan renewals, and determine the cause of problem with existing loans, if any. Review of loans is done periodically on all loans. The usual review period is six months to one year, depending on the size of loan. According to Rose (2002) the loan review should be conducted based on the record of the borrower payment, the condition and quality of collateral pledged, the completeness of loan documents, evaluation of borrower's financial conditions, and an assessment of the loan relative to the lending policy of the bank. Large loans and troubled loan are reviewed frequently. If a loan is considered a problem loan, a loan workout program is devised with the borrower. The bank has to

keep the goal of full recovery of its funds while devising a workout program for any troubled or problem loan (Rose, 2002).

The loan officer also ensures that bank's lending policy is observed while lending. Full documentation is obtained on loans. The loan officer also helps in setting the price of the loan by way of interest and fees periodically based on bank's policy and customer's relationship with the bank. The loan officer also conducts periodical inspection of borrower's premises wherever required to ensure that collateral pledged to the bank is adequately maintained in value and protected. The loan officer is also responsible for submission of periodical returns to Reserve Bank of India, head office, regional office or any other regulatory agency on the activities of the bank, if required.

5.2.2.3 Functions of the Branch Managers

The branch manager is responsible for the profitable management of the branch and supervises all the staff and officers of the branch including assistant branch manager and loan officer. The branch manager reports to the regional manager/circle manager as the case may be. A regional/circle manager may be responsible for about 30 branches working in any particular area of the bank. The Branch manager is responsible for the growth and development of lending and deposit business as well as fee based business of the branch. The branch manager is also responsible for general management of the branch, achievement of performance targets in deposit and lending, profitability of the branch. Any negotiations with the union at the local level may be done by the branch manager but industry level negotiations are not part of branch manager's activity.

The branch manager takes lending decisions usually based on the recommendation of the loan officer for all categories of loans. The ultimate discretionary power about acceptance/rejection of the loan rests with the branch

manager who may disagree with the recommendation of the loan officer and may allow/disallow a loan application contrary to the recommendation of the loan officer. As supervisor the final decision about accepting the loan application rests with the branch manager. The branch manager is allocated discretionary powers by the head office of the bank. These limits are different for different categories of the loans and borrowers. The branch manager can sanction a loan falling within his/her discretionary powers. If the loan amount exceeds his/her discretionary limits, the branch manager has to make a recommendation to the regional manager/zonal manager on loan applications. The loan officer helps the branch manager in formulating a recommendation on the loan application which is sent to the regional manager/zonal manager/head office of the bank. The regional manager/zonal manager/head office will take decision on the loan application and convey it to the branch. If the loans are allowed by regional manager/zonal manager/head office of the bank, the branch is still required to carry out all the instructions in regard to the terms and conditions of the loan for disbursement, documentation, account keeping and follow up of loan as instructed by the higher authority. The ultimate responsibility of the loan management rests with the branch and as in-charge of the branch the branch manager is accountable to head office for observing all the necessary safeguards on lending relationships.

5.3 Descriptions of branch business and organisation

This section describes the organisation and business structure of each of the eight branches studied as cases. Each case describes the distinct features of the branch organisation and business as observed by the researcher. The common features of the branch organisation are already described in section 5.2. The purpose is to study the environment in which the branch manager and loan officer operate as the environment influences their relationship and determine the trust between the branch manager and

loan officer of bank branches in India. This environment consists of the location of the branch, business conditions and business mix of the branches.

5.3.1. Description of Case A

This particular branch is located in the western part of India in a city with a population of 1.5 million. The branch is in existence for about 40 years now and the rate of growth has been slow compared to other banks in the area. This branch is classified as a medium sized branch according to the Head Office classification of the branches for the bank.

The branch is structured in a standard way. The branch manager is the person in charge of the branch. The assistant branch manager helps the branch manager in managing the branch. The branch is organised into various departments/sections such as saving bank department, cash receipt and payment department, fixed deposits department, clearing and bills department, drafts issue and payment department and loans department. The functions of each of these departments are described in section 5.2.

The branch operates in a target area of one district which is about 50 kms around the branch premises. The branch is situated in a commercial area close to a residential colony. The main deposit customers of the branch are the local residents of the area. These deposit customers maintain saving bank deposits and fixed deposits accounts with the branch. There are about 100 other bank branches in the area which makes the business very competitive for the branch. Some institutional accounts of school and college are also maintained with the branch. In addition, the branch has current accounts from local businesses in the target area although the number of current account is not very large.

The major lending business of the branch consists of loans against fixed deposits, lending for the purchase of houses, lending against government bonds and national saving certificates to individuals. Lending to business customers comprises of term loans against building and machinery, fixed assets, cash credit against working capital requirements and bills purchased on trade transactions. The branch is also required to lend to borrowers who apply through various government lending schemes. These loan applications are usually received through local authorities who administer these schemes on behalf of national/state governments. Usually a subsidy is available on these sponsored loans. The subsidy is meant to be taken towards the borrower's contribution towards project cost. The loan is given on asset value less subsidy.

The rate of growth in this branch has been slow for a number of years. The rate of growth is slow because this area has not been developing very well and economy is also not growing much. The lack of growth in economy of the local area has contributed to the slow growth rate of the branch. In addition, the branch manager has been risk averse because in the past there were significant loan failures in the branch. The loan officer is also influenced by branch manager's risk averse attitude. Some customers in the area have tried to bring pressure on the branch to lend more and there is constant push from the Regional office to improve lending performance. Both the branch manager and loan officer have however adopted a cautious attitude towards new loans and this situation has been instrumental in defining the relationship between branch manager and loan officer.

5.3.2 Description of Case B

This branch is located in a metropolitan city in north India with a population of about 10 million. The branch has been in existence for about 20 yrs now and is managed by a branch manager who is assisted by an assistant branch manager and other officers.

The branch is classified as a medium sized branch according to the business activity of the branch. Although the branch is classified as medium sized branch, its structure is not a standard one. There are certain deviations from the standard structure. The branch manager has a strong control and influence over the branch activities. The assistant branch manager is looking after current account section in addition to his job which involves supervising internal administration, holding joint custody of cash keys, supervising the lockers and safe custody departments and mail inwards and outwards sections. The branch has a separate savings bank department which is combined with cash receipt and payment section. The clearing and bills section is supervised by another officer who also looks after demand drafts issue and payable section. The fixed deposit section is separate and supervised by another officer. The loan officer is managing loans department and reports directly to the branch manager.

The branch manager has a direct control over the loans department. This loan officer is working with the branch manager for past six months only at the time of data collection. The previous loan officer and the branch manager had considerable problems with each other. Consequently the previous loan officer was transferred out of the branch and replaced by the current loan officer. Although the problems between the branch manager and the loan officer do not exist any more, the relationship between the branch manager and the loan officer is still not as good as in other branches.

The branch is located in a business area which is surrounded by a residential area. Being at the end of a metropolitan city, the branch has considerable rural area as part of its target area. The branch has many agriculturists as its customers who have contracted agricultural loans from the branch. These loans involve financing for agricultural machinery such as tractors, threshers and agricultural implements, land development loans, agricultural short term loans for crops and marketing of agricultural

produce. Many of the branch's city customers are commission agents for agriculturists and provide sale service for agricultural produce on a commission basis.. In addition, the branch's deposit customers are residents on target area. These residents have saving bank and fixed deposits accounts with the branch. The branch has given housing loans to some of the customers in the target area. The branch has also provided credit to institutions like hospitals and schools in the target area. The branch has institutional deposits from some of the large government funded corporations who sometimes obtain short term credit from the branch for their liquidity needs.

The branch manager works with a very different procedure with regard to lending assessment. The branch manager receives the lending application directly as first point of contact. After going through a preliminary check on the application, branch manager sends the application to loan officer for processing. loan officer processes the application with his recommendation. The branch manager then takes the final decision on the loan application. Apparently the loan officer does not seem to be happy about the procedure adopted by the branch manager but resentfully follows the manager's instructions.

The branch manager in this branch exercises more control on loans department than other branch managers. The current loan officer does not approve of branch manager's actions but has cooperated with the branch manager on that issue. The previous loan officer's problems with the branch manager have heavily influenced the relationship between current loan officer and branch manager. Both of them are keen to see that their relationship works very well for them. In addition the location of the branch is a determining factor of the way the branch works and the relationship between the branch manager and the loan officer is defined. The branch is located on the edge of a metropolitan area and close to a rural area. The clientele of the branch is divided

between two areas. The nature of customers is different in both the areas and branch manager's lending strategy has to take that into consideration. Similarly the loan officer has to consider the differences between the clientele and deliver the lending services accordingly. The diverse nature of clientele is also one of the influencing factors in the relationship between the two. Further the branch is facing shortage of staff particularly officer staff. This affects the quality in the delivery of service at the branch. Both branch manager and loan officer get affected by the shortage as the shortage affect the lending services as well.

5.3.3 Description of Case C

This branch is located in another state in north India. The city where the branch is located has a population of about one million. This city is located in an agricultural heartland. The branch been in existence for about 30 years but its business has been very limited because of a number of problems in the past. There have been many industrial actions in the branch due to constant disagreement between the branch management and the employees union. This has resulted in lack of business development in the branch as the industrial strife has driven away many customers of the branch. Even now the branch is not completely free from the industrial strife.

The branch is classified as a medium sized branch by the head office of the bank. It has about 25 staff members. The branch manager is assisted by assistant branch manager, who looks after the internal administration of the branch along with sections like safe deposit locker and safe custody, dispatch inwards and outwards. There are separate saving bank department and cash receipt and payment section. These are looked after by one officer and two assistants each. The branch has separate department for clearing, bills inwards and outwards and a separate fixed deposit department. Each of these departments is managed by one officer and two assistants. The loans section is

managed by a loans officer who reports directly to the branch manager. Although a loans officer is managing the loans department, most of the loans work is attended by the Branch manager himself. Branch manager has to attend loan assessment, applications, documentations, review and renewals of the loans.

The branch's target area stretches to one whole district yet the branch has a very limited business. Branch has given some housing loans to customers and also has a number of agricultural loans especially for mango plantations. Loans have also been disbursed for agricultural short term and long term purposes such as loans for agricultural machinery and crop production. In addition, loans and credit lines have been given to traders in the area who have retail and wholesale businesses in agricultural commodities. The branch is located in a district which is considered as a backward district. The branch has given loans for development to small manufacturing units in handicraft especially metal craft, which is a speciality of the region. But lending to some of these units have resulted in bad loans. Therefore the branch manager has adopted a very cautious attitude towards lending to these manufacturing units.

The development of the branch is constrained by industrial actions in the past by the employees unions. In order to increase the business, branch manager has to increase efficiency in the delivery of service by the branch staff. The strong union activity in the branch has not been very helpful. The relationship between branch manager and loan officer is influenced by the industrial situation because lending business is also affected by industrial action.

The branch is located in a backward district of the country and there is considerable pressure on the branch from local authorities to increase its loan portfolio. However the branch manager and loan officer have developed a risk averse situation because they do not want to aggravate their problems with the unions in the branch.

5.3.4 Description of Case D

This branch is located in one of the large cities in north India. The population of the area is about 10 million. The branch is a part of a cluster of branches of the bank in the city and competes for business not only from other branches of the same bank but with other bank branches as well. The branch is located in a business area surrounded by residential colony, educational institutions and hospitals. The branch has been in existence for last 25 years and is classified as a medium sized branch according to head office classifications.

The branch is managed by a branch manager who is assisted by an assistant branch manager. There are many other officers helping them in their work. The branch organisation is large compared to other branches of its size because of the level of business. This branch operates extension counters in other places and these extension counters are also supervised by branch management. In addition, the branch has separate departments for saving bank, current account, cash receipt and payment, fixed deposits, bills inwards and outwards, clearing, demand drafts issued and payable. Being a part of cluster of branches in the same city, the clearing operates in a different way. There is an internal clearing arrangement for clearance of cheques between the branches of the same bank. In addition, the cheques drawn on branches of other banks in the city are presented for collection through external clearing. Both these clearings are coordinated by local circle office at the circle level in the city. The external clearing is finally arranged by the local branch of Reserve Bank of India for all banks. The extension counters are also staffed by the branch and provide basic services like opening of accounts, cash receipts and payments and collection of cheques. The loans department is managed by a loans officer who is very experienced with loans work in other places of the bank. He has been working for about one and a half year in the current position at the time of data collection.

The main deposit business of the branch is obtained from local residents who maintain saving bank accounts and fixed deposit accounts. These accounts are usually linked to the provision of additional services like safe custody of valuables and safe deposit lockers. The branch also has large institutional deposits from educational institutions in the area and also from hospitals. These deposits are usually linked to provision of salary services to the staff of educational institutions and hospitals. The staff of these institutions opens saving bank accounts with the branch. Other sources of large deposits for the branch are corporations and government departments located in the area which put money in short term deposits or short notice deposits as part of their liquidity management.

The major lending business of the branch is from large corporations who obtain various facilities such as term loans, cash credit facilities and facilities like letter of credit, pre and post shipment credit and foreign bills purchased to finance their manufacturing activities and export sales. In addition, housing finance to local residents is another source of lending business. The branch target area has many property developers who have developed housing estates and obtained funding from the branch for these developments. The branch also provides educational loans to students studying in educational institutions around the branch and in other places. Also, the branch has lent to a number of small manufacturing units which are located in approved industrial estates in the city. In addition, a number of professionals like doctors, lawyers and accountants have obtained credit facilities from the branch to support their business.

The loan officer in this branch has been working with the branch manager for last one and a half year. He is very experienced in lending and has used his previous exposure to lending in the current loans department. The branch manager considers him very dependable.

The location of the branch and the associated business situation is an influencing factor in the relationship between branch manager and loan officer. The branch is located in a business area where there is a large competition for business among banks. The branch has large corporations and educational institutions as its customers which have considerable business with the branch. These clients sometimes make unusual demands on branch management for provision of services. The staff of educational institutes has deposit accounts with the branch and use their connections to demand facilities from the branch. Branch manager and loan officer are under constant pressure to deliver these services. Both branch manger and loan officer are very experienced in their work and their relationship is defined by the business situation.

5.3.5 Description of Case E

This branch is located on the edge of a residential colony in a metropolitan city with a population of 10 million. The branch is controlled by a circle office which controls another 20 branches of the bank in the city. Although located in a residential area, the branch has many business customers from the business district of the metropolis. The branch operates two extension counters in educational institutions which are a source of considerable business to the branch. The branch had considerable lending problems in the past resulting in bad loans. Since then the branch has recovered from its losses arising due to bad loans. These loans were given as part of government sponsored lending schemes.

The branch is managed by a branch manager who is considered very senior in bank's hierarchy. The branch manager is assisted by an assistant branch manager and a number of officers and staff looking after various sections and departments. The branch has separate saving bank department, cash receipt and payment section, fixed deposit department, current account department, bills inwards and outward department, clearing

department and demand draft issued and payable department. All these departments are managed by an officer and two assistants each except saving bank department which has four assistants due to large volume of saving bank accounts in the branch. Other sections such as safe deposit lockers and safe custody and dispatch inward and outwards are looked after separately by an officer and two assistant each. The loan section is managed by a loan officer who reports directly to the branch manager.

The main deposits business of the branch is from large number of saving bank accounts. Also the extension counter of the branch operating in two locations has large number of saving bank accounts. Some of the saving bank customers also open fixed deposit accounts. The institutional customers like schools and colleges in the area maintain current accounts. The branch also has current accounts from local trading businesses, which also open line of credit and overdraft facilities with the branch. The traders also receive goods from their suppliers and send goods to their customers in various locations giving rise to bills inward and bills outwards business for the branch. Also the branch has considerable business in funds remittances through drafts.

The major lending business of the branch is from lending to small manufacturing units located in industrial estates in the branch's target area. These manufacturing units manufacture goods meant for exports and also import raw material. The branch provides facilities like letter of credit, open line of credit, pre and post shipment credit and foreign bills purchased. Branch also provides cash credit facilities to local trading businesses and purchases bills drawn by them on their customers. In addition, the branch has lent money to a number of small businesses under government schemes for which these businesses receive subsidies. Considerable amount of lending under this category is made through political connections and sometimes the loans go bad resulting in loan losses for the bank. The branch is also lending to some real estate

developers in the area who have developed housing colonies and plots for resale in the area.

The relationship between branch manager and loan officer is defined by their long association with each other which started in a previous work situation. The branch manager has selected the loan officer to suit his requirements. He had the opportunity to observe the work of loan officer previously. The branch manager is a senior officer in bank's hierarchy and the loan officer is comparatively new in the job. The branch manager is able to heavily influence the actions of loan officer and has domination in the relationship. The loan officer identifies himself completely with the branch manager.

5.3.6 Description of Case F

This branch is located in an industrial area which has a cluster of small manufacturing units. These units are engaged in manufacturing local handicrafts, metal products and other consumer goods. The industrial area is on the edge of a city of approx 1.5 million people and borders a rural block. This branch operates an extension counter in a large manufacturing unit 3 kilometres away from the branch premises.

The structure of the branch is very different from other branches forming part of this study. The branch is managed by a branch manager, who in addition to looking after the functions of branch manager, also looks after current account section because the branch has only four officers including the branch manager and the assistant branch manager. The assistant branch manager's function includes supervising general administration of the branch, safe deposit lockers and safe custody department, dispatch inward and outward department in addition to being the joint custodian of the cash keys. In addition, the assistant branch manager is also the loan officer of the branch and manages the lending function. The branch has two more officers. One of them is

assigned to an extension counter where he manages cash receipts and payments, savings bank accounts. The fourth Officer in the branch looks after the cash receipt and payment, saving bank accounts, demand drafts issued and payable section and clearing and bills inward and outward sections. Each of these sections has two assistants to help the officers but because of limited number of officers, each officer bears more work loads than normally done in other branches.

The major deposit business of the branch comes from saving bank accounts at the branch and the extension counters. To facilitate services to customers, the branch opens in the afternoon and continues business in the evening. The branch also has a sizeable number of fixed deposit accounts. Many saving bank depositors also have fixed deposit accounts with the branch. The current accounts opened with the branch are from small manufacturing firms located near the branch. In addition traders from local market have also opened current accounts with the branch. Some of these customers have line of credit and overdraft facilities with the branch.

The major lending business of the branch is from provision of credit facilities to small manufacturing customers. This includes term loans for building and machinery and fixed assets, overdraft facilities and cash credit facilities towards working capital and bills purchased facilities towards financing of accounts receivable. The branch has also made loans against deposits to some customers. In addition, the branch has financed small entrepreneurs engaged in retail businesses and auto rickshaw operators. Some loans have also been given for purchase of residential properties in the target area of the branch. Because of the structure of the branch, the assistant branch manager has to act as the branch manager in the absence of the branch manager and simultaneously act as a loan officer. Therefore the assistant branch manager is delegated a lot of branch manager's lending authority when the branch manager is absent or on leave.

The relationship between branch manager and loan officer is very uneasy. The loan officer is also the assistant branch manager of the branch and ranks at almost an equal level with the branch manager in bank's hierarchy. Branch manager is not in a position to influence the loan officer's actions to a large extent. Because of shortage of staff in the branch, the branch manager has to depend heavily on loan officer for delivery of services. Branch operates in a regional area. Its clients are small manufacturing firms and businesses. Due to limited staff, the branch manager is under constant pressure from Regional office to increase its business, but the branch manager is not able to do that due to staff constraints.

5.3.7 Description of Case G

This branch is located in a metropolitan city with a population of about 10 million in the southern part of India. This city is famous for business process outsourcing and many of the branch's customers are involved in this line of business. The branch is located in a residential area at the back of a commercial area.

The branch has a standard structure with the branch manager being the In-charge of the branch. The branch Manager is assisted by an assistant branch manager, who is responsible for the general administration of the branch, custody of cash keys, safe deposit and lockers department, dispatch inwards and outwards. The branch has officers looking after cash receipt and cash payment section, saving banks department, fixed deposits department, clearing and bills inwards and outwards sections, demand draft issue and payable section. Each of these departments /sections is managed by an officer and two assistants. The loan officer of this branch is a woman who reports directly to the manager and is responsible for the loans operations and management.

The main deposit business of the branch is saving bank and fixed deposit from local residents. In addition, the branch has some institutional deposits from government

departments and public bodies. These deposits are in the form of fixed deposits, current accounts and short term deposits. In the past the branch has faced some problems in business growth and development. The present branch manager has increased the growth rate of the branch and in the process liberalised the lending function of the branch. There seem to be some difference of opinion between the branch manager and the loan officer about the extent to which lending parameters of the branch could be liberalised in order to increase the growth of deposits in the branch but these differences have been negotiated well and have not affected the lending function to a large extent.

The main lending business of the branch comes from the lending to large corporations and businesses. The branch grants credit facilities to these corporations on fixed assets and for working capital and receivables. In addition the branch has given a number of housing loans for purchase of houses by individual customers. The branch has also given overdraft and line of credit facilities to some small businesses doing BPO work, which have opened current account with the branch. Loans against security of deposits are another strong business area of the branch. Branch has also given loans to borrowers sponsored by the state/central government agencies under various schemes of the government. Repayment of loans under this category is still an important issue.

The relationship between branch manager and loan officer is constrained by the fact that loan officer is a woman. She has her limitations in interacting with the branch manager. The relationship is strictly professional with very little personal concerns as loan officer is not able to work late in the evenings or weekends. The branch has large corporate customers who demand quick services. Because the branch faced some problems in the past, the branch manager is keen to increase the business. The strict professional attitude of the loan officer is not conducive in branch manger's efforts to

increase the business in the way he wishes. This situation contributes to the strained relationship between branch manager and loan officer.

5.3.8 Description of Case H

The branch is located in a semi-urban district which is considered a backward district by the government. The population of the city is approximately two hundred thousands. The district has predominantly agriculture produce as the main commodity for trading. The city also has an industrial estate where a large number of small manufacturing units are located. The government has provided a subsidy to some of these units because of their location and activity performed. The branch faces competition from a number of bank branches in the local area, some of which are larger than this branch in terms of business and people employed.

The branch is managed by a branch manager who is assisted by an assistant branch manager. The assistant branch manager is responsible for the internal administration of the branch, joint custody of the cash keys, safe deposit lockers and safe custody departments and dispatch inward and outward departments. The branch has current account section which works in conjunction with demand draft issued and payable section. One officer looks after both these departments along with two assistants. The saving bank officer manages saving bank department, cash receipt and payment section as well as clearing and bills inwards and outwards sections. Each of these officers is assisted by assistants in these sections. The loan officer is responsible for all the loans functions of the branch and reports directly to the branch manager. This branch has faced a number of problems in the lending department in the recent past and hence both the branch manager and the loans officer have a very cautious attitude towards lending.

The main deposit business of the branch is from saving bank accounts. Being located strategically in the city, the branch has a large number of saving bank customers. The branch maintains extension counter at one of the local institutions, which is also a source of many saving bank accounts. In addition the branch provides services to a local hospital and a college, whose staff have opened saving bank accounts with the branch. Many of the saving bank customers have opened Term deposit accounts with the branch. The main current account customers of the branch are traders from the local market who usually sell agriculture produce on commission basis. They have also obtained overdraft facility and line of credit. Some current account customers have small manufacturing business.

The major lending of the branch is to agriculturists in the area. Loans have been provided for agricultural machinery, implements and short term production and land development. These agriculturists sell the produce through commission agents in local market. Some of the commission agents have overdraft facilities with the branch. Branch has also given housing loans to customers in the area, who have salary accounts with the branch. Some of these customers also have consumer loans with the branch for household needs. Lending has also been done to small manufacturing and processing units in the area. These units have medium term loans for building and machinery, overdraft and cash credit facilities for working capital and bills purchased facility for accounts receivables. Some deposit customers have also obtained loans against deposits on the security of their term deposits. The growth of business for this branch has been very slow because of lack of development in the district and also because of some lending problems in the past.

The relationship between branch manager and loan officer is constrained by the location of a branch in a place where there is not much potential for business

development. The overall development in the target area of the branch has been very slow and this has affected the growth of the branch. Further the branch manager and loan officer are from different castes and caste considerations to some extent influence their relationship. The branch has faced some problem in the loan business in the past and there have been some incidence where frauds have occurred. Therefore both branch manager and loan officer have very cautious dealings in mutual relationship and in developing lending business.

5.4 Summary of the Chapter

This chapter describes eight cases that provide the foundation for empirical data collection and analysis in this thesis. The background information about each of the cases is given in this chapter. This background information helps in understanding the business environment and conditions in which branch managers and loan officers operate at the branches. These business conditions influence the way in which trust relationship between branch managers and loan officers forms, develops and grows.

The background information is divided into two parts. First the common elements of organisation and functions of branches are given in sec 5.2. These features cover the functions of various departments in the branches and the role and responsibilities of branch manager, assistant branch manager and loan officer. It is observed that each branch has a number of departments such as saving bank department, current account department, fixed deposit department, drafts/mail transfer/telegraphic transfer department, bills and clearing department. The branch manager is responsible for the supervision of assistant branch manager and loan officer. The assistant branch manager is usually in-charge of general administration, personnel, short term borrowings, lockers and safe custody departments and cash management. The loan officer supervises the loan department and reports directly to the branch manager. Sec

5.3 covers the distinct features of branch organisation and functions of each branch relating to their location, size, nature of branch business and organisation.

Each branch has a certain target area of business operation where they compete with rival bank branches for business. Deposit customers maintain saving bank, current account and fixed deposits, the composition of which varies in each case. Similarly the composition of lending business varies depending on the location, nature of business and prospects of economic development in the target area of the branch. The relationship between branch manager and loan officer is influenced by the location, size and business mix of the branch specially the composition of lending business. In branches where rate of growth is slow, the branch managers and loan officers are under pressure to increase the size of lending business. Where growth rate is high, branch managers and loan officers face competing demands from customers which has the potential of influencing the trust in the relationship between branch managers and loan officers.

Chapter 6

Analysis of Individual Cases

6.1 Introduction

In the previous chapter 5, the case studies used in this study as primary data were described. The description of case studies relate to the functions of various bank branches' sections, organisations of branches, description of lending and deposit business of the branches.

The purpose of this thesis is to investigate the role of trust in the relationship between branch managers and loan officers of bank branches in India. The first component of this study is to identify the key factors of trust that determine the relationship between the branch managers and loan officers of Indian bank branches. The second component of this study is to examine the stages in which trust develops between the branch manager and loans officer of Indian bank branches. The third component is to understand the effect of trust on lending performance of bank branches in India.

The research method used in the empirical investigation of the role of trust in the relationship between branch managers and loan officers of bank branches is given in chapter 4 of this thesis. The research method used in this thesis involves using a pattern matching technique to compare the theoretical pattern of trust with the empirical observation of trust on three dimensions – the identification of key factors of trust that determine the relationship between branch managers and loan officers, various stages of trust development between branch managers and loan officers and third, the effect of trust between branch manager and loan officers of Indian bank branches on the lending performance of the branches.

In this chapter, each case which forms part of the observational pattern is analysed in terms of the theoretical model described in chapter 3 of this thesis. This theoretical model was developed based on the trust model of Mayer, Davis and Schoorman (1995). The observations made in each case are separately analysed on all the three components of the study previously mentioned, namely, the key factors of trust between branch manager and loan officer of bank branches, the stages of trust development of trust between branch manager and loan officer of bank branches and the effect of trust between the branch manager and the loan officer of the bank branches on the lending performance of the branches.

The data used in this analysis was obtained by responses made through primary interviews of branch managers and loan officers of Indian bank branches by the researcher. The interview questions used in the conduct of interviews were based on the theoretical model described in chapter 3 of this thesis. The interview data was collected on the three dimensions of this study described above.

In this chapter, each of the cases observed is analysed with respect to the theoretical pattern. The purpose of a “within case analysis” is to develop an understanding of a particular case with respect to the theoretical pattern and the research questions. This understanding is developed by comparing the theoretical pattern with the observed pattern. Through the analysis of interview questions, a connection is established between variables represented by the interview questions and the theoretical model of trust and stages of trust development. This connection helps in analysing how different branch managers and loan officers use a particular aspect of trust and how that use conveys meaning in relation to the theoretical framework. Within case analysis helps in resolving the complexities of each case and in observing the pattern and

insights that case data offers. Each of the cases are analysed below and details of analysis are summarised below.

6.2 Theoretical Model of Trust

The theoretical model of trust given in Chapter 3 of this thesis suggests that the trust plays a significant role in the relationship between branch manager and the loan officer. The model also describes various factors of trust between branch manager and the loan officers of bank branches in India and suggests how these factors interact to support, nurture and mature, help in progression of the relationship. These factors are – similarity, knowledge, benevolence, behavioural integrity, behavioural consistency and culture. Each of these factors are subdivided into various components.

The first factor on the theoretical model of trust is similarity. Similarity is divided into three components – similarity in work styles between branch manager and loan officer, similarity in personal qualities of branch manager and loan officer, previous experience of branch manager and loan officer in a similar work situation of lending management in a bank branch prior to this relationship.

The second factor of trust identified in the theoretical model was knowledge of branch manager and loan officer. The knowledge consisted of knowledge about loan policy and products of the bank, knowledge about bank's systems and procedures especially in lending work, knowledge about people, place and customers of the bank in the target area of the bank.

The third factor of trust was identified as benevolence. Among the actions required by the branch manager and loan officer to be considered as benevolent were – being considerate to each other, sensitivity to the needs of the other, independence and loyalty of the loan officer towards branch manager and willingness of the branch

manager to provide recommendation or promotion of loan officer to higher authorities by the branch manager.

The fourth factor of trust in the theoretical model was behavioural integrity. Behavioural integrity was subdivided into consistent behaviour, consistent past action in dealing with each other, good communication and understanding between branch manager and the loan officer, congruence between actions and words, honesty and integrity of both the branch manager and the loan officer.

Behavioural consistency was identified as the fifth factor of trust in the relationship between branch manager and loan officer. The ability to work under stress was considered an important aspect of behavioural integrity. The other aspects of behavioural consistency were proper prioritising of the job, predictability and reliability of both the functionaries in the branch.

A proper and reliable communication between the branch manager and the loan officer was considered the sixth important factor in the development and continuation of trust between the branch manager and the loan officer.

Culture is the seventh important factor of trust identified in the theoretical model. Culture in Indian business context is considered an important factor of trust. The various components of culture were identified as – value of affiliation, beliefs – personal and social, nurturance, personal involvement and the role that caste/race, religion, ethnicity and minority status of each player play in the trust relationship.

Interview responses of the branch manager and the loan officers were also obtained on the various stages, in which trust was developed, sustained and grew between branch manager and the loan officer. The first stage is the calculus based trust where each one of them realise that there are costs and benefits of trusts. This stage is

also characterised by a threat and reward system. The threat occurs if there is a violation of trust and reward is given for observing trust in a meticulous way.

The second stage of trust is called knowledge based trust. This stage is characterised by better information, communication and knowledge development between the branch manager and the loan officer.

The third stage is identification based trust when the dependence between the branch manager and the loan officer increases and branch manager was able to delegate part of his/her work and authority to the loan officer.

Interview responses were also collected on the effect of trust on the lending performance of bank branches. The criteria for observation of lending performance were based on a number of parameters. These parameters include improvement in achieving lending targets set for the branch by the head office of the bank in terms of number of loan accounts and rupee amount of loan disbursements. The second parameter was improvement in the recovery of non-performing assets. The other criteria were the improvement in the quality of assets of the branch, improvement in the quality of risk management of the assets held, increase in fees and interest payment on lending, decrease in lending expenses and overall increase in loan profitability.

The responses of the branch managers and the loan officers were obtained on all factors of trust, stages of trust development and improvement in lending performance of trust attributable to trust between branch manager and loan officer of the branches. The data are analysed for each of the eight branches studied as individual cases. The analysis is based on how well the theoretical criteria on the nature of significant factors of trust, stages on trust development are met and how the relationship between branch manager and loan officer develops, sustains and grow. Also the analysis is based on how the trust

between branch manager and loan officer affect the lending performance of the branches studied.

6.3 Analysis of Case A

This is a medium sized branch located in western part of India. The target area of the branch is 50 kms around the branch. The branch is structured in a standard way with branch manager, assistant branch manager, loan officer and other officers managing the branch. The main deposit business of the branch consists of saving bank and fixed deposits. The main lending business consists of loan against deposits and lending to business customers. The branch also lends to borrowers under government schemes. Due to the location and lack of development in the target area of the branch, the growth of business was slow in the branch.

The branch manager and the loan officer's responses were obtained on the factors of trust, stages of trust development and effect of trust between branch manager and the loan officer on the lending performance of bank branches. From the responses of the branch manager and loan officer, the relationship between the branch manager and the loan officer is analysed in the context of the theoretical model of factors of trust, stages of trust development and the business background of the branch. The analysis also includes the way in which trust between branch manager and loan officer develops, sustains and grows.

6.3.1 Analysis of factors of trust

From the responses of the branch manager and loan officer, it was observed that trust was an important issue for branch manager and the loan officer of the branch. Trust was considered important because the branch faced competition from 100 other branches in the area and the branch has a focus on the deposit business of the bank. Compared to deposit business the lending business of the branch is small and the

growth of the lending business is essential to the growth of the branch because the branch earns substantial income from the lending business. The branch cannot achieve growth in lending business if lending service is not delivered to the customers at a low cost. For the purpose of developing lending business of the branch, the loan officer and the branch manager have to develop a relationship based on mutual trust. Both the branch manager and the loan officer indicated that they realise that there are costs of not having trust and there are potential benefits to being in a trust relationship. These considerations of potential cost of not having trust and potential benefits of having trust in relationship have induced the branch manager and the loan officer to develop trust in relationship.

There are, however differences in perception of the branch manager and the loan officer on the nature of factors of trust needed for trust development.

6.3.1.1. Similarity

The first factor of trust, similarity in work style appeared not be considered a significant issue in trust development by both branch manager and loan officer. The loan officer insisted that “work style could be different because of the different approaches of the branch manager and loan officer towards the lending business. For example, branch manager could be risk taker in lending and the loan officer could be risk averse”. These perspectives were developed because the loan officer and the branch manager had a different work history and came from different ethnic backgrounds,

However, the ability to develop good relationship especially with customers was considered an important aspect of bank lending because customers in the area were demanding and the branch business depended on deposit customers. Attracting good loan customers in the area was not easy for the branch due to competition from other bank branches in the area.

Responding on the issue of previous lending experience and his relation with branch manager as a subordinate, the loan officer expressed his perception about the abilities of branch manager when he said that “branch manager should have a better IQ than the loan officer” and “branch manager could have previous lending experience before becoming manager”. That experience, in the opinion of loan officer, could be subsequently useful in the creation of trust as the loan officer has to depend on the branch manager for lending decisions. The loan officer’s contention articulates the need for prior knowledge of lending management by the branch manager and the way in which the loan officer has to rely on the branch manager for lending decisions.

The branch manager’s perception about loan officer’s abilities highlights the need for mutual trust but also emphasize that trust is not just mutual but also a part of individual qualities. “Mutual trust is an important issue but the loan officer should have trust in himself/herself and the self confidence of the loan officer was an important issue in selecting a loan officer.” This statement of the branch manager is however contradictory to the policy of job rotation followed at the branch. One of the constraints identified by the branch manager in development of trust with loan officer was related to the policy of rotation of people on the job which limited the choice of the branch manager in selecting a loan officer. As a result of employee rotation, it became difficult for the branch manager to develop trust with loan officer as each rotation would place a new person in the job of loan officer and a fresh start has to be made after every rotation. Both the branch manager and the loan office have to work within the policies of the bank. Their authority and position is determined by the bank’s policies and trust relationship is also constrained by the organisational requirements.

6.3.1.2 Knowledge

The second significant factor of trust between branch manager and loan officer was knowledge. From the responses of the branch manager and loan officer, it was observed that the branch has many lending products and services of lending being delivered to customers such as loan against government bonds, loans to businesses, and loans for housing. Each of these products and services require specialised knowledge in service and product delivery. Hence both loan officer and branch manager agree that knowledge about bank's policies and procedures, products and services, knowledge about people, place and customers was an important issue for trust development. Any lack of knowledge could result in problems in product and service delivery and would affect the performance of both the branch manager and the loan officer. Knowledge of analytical skills such as balance sheet analysis, financial analysis and cash flow analysis skills were also considered important as these skills were part of loan analysis skills.

6.3.1.3 Benevolence

From the responses of the branch manager and loan officer, the third significant factor of trust between branch manager and loan officer was perceived to be benevolence. Benevolence as a factor of trust in this branch was considered to be composed of loyalty of the loan officer towards. The Branch manager wanted the loan officer to be independent and at the same time loyal to him as a subordinate. As a part of his benevolence, the branch manager on his part expressed his willingness in recommending the loan officer to higher authorities for promotion. It was considered as benevolent that protection be provided to loan officer in case of eventuality or contingency. The loan officer's perception was that the issue of recommendation to higher authorities was missing in general, implying that the branch manager was not recommending loan officer for promotion to higher authorities. Another component of

benevolence was perceived by the loan officer to be the need for not being exploited by the branch manager by virtue of his position as a supervisor.

Loyalty in the context of Indian work environment is considered an important issue in a supervisor subordinate relationship as that of a branch manager and a loan officer. In the same context, supervisor tends to exploit their loyal subordinates for their own gains and the desire of the loan officer to be protected in case of mistakes in lending is understood in that background. Bank lending is a risky activity and if anything goes wrong in a lending situation, bank's authorities try to fix responsibility for wrong actions. Most of the times supervisors get away with the responsibility and the subordinates have to pay the price for mistakes.

6.3.1.4 Behavioural Integrity

Behavioural integrity was determined by both branch manager and loan officer by observing the past actions of each other. Both the branch manager and the loan officer had the opportunity of working with each other and directly observing the behavioural integrity and consistency of actions in lending situation. They had the opportunity of communicating with each other on a daily basis. Proper prioritising of customer contact and reliable decisions were an integral part of their communication and dealings.

6.3.1.5 Behavioural consistency

Due to large number of customers being attended to by a single loan officer and due to different types of loans being marketed and managed, the lending business is usually stressful and ability to deal with customers under stress is an integral part of the business, demonstrating behavioural consistency. Further proper prioritising of work and reliability and predictability of the trusted party were considered important in contributing to the trust between branch manager and loan officer.

6.3.1.6 Communication

Communication was considered an important factor of trust. The loan officer and the branch manager had regular discussions and feedback was given by the loan officer to branch manager on lending situations as well as about behavioural aspects. But in the Indian context sometimes supervisors do not like to receive feedback from their subordinates and branch manager had not responded well to the loan officer's feedback on certain issues creating certain misgivings for the loan officer.

6.3.1.7 Culture

In this branch, the culture appeared to be an accepted method of doing business. As part of cultural practice, the loan officer looked to the branch manager as a friend, philosopher and guide and valued his affiliation with the branch manager. Both the branch manager and the loan officer came from different parts of India. The manager was a local person and the loan officer came from another part of India. Both of them had their beliefs about interacting with other people but on the job these beliefs did not play an important part because the organisational rules were followed by both of them. Both worked within organisational guidelines.

The manager and the loan officer came from different caste/race, ethnicity although religion was same. The manager came from a minority community. There were some opinions about the reservation policy of the government in regard to certain communities in banks but loan officer and branch manager worked within organisational guidelines.

6.3.2 Analysis of Stage of Trust Development

The trust between branch manager and the loan officer appeared to have developed over a period of time in three stages as suggested by the theoretical model of Lewicki and Bunker (1996). Initially they realised that since bank lending was risky,

there were benefits for both of them in developing a trusting relationship and there could be severe costs to both of them if they could not trust each other.

6.3.2.1 Calculus based trust

The theory suggests that in the first stage of trust which is calculus based trust, a system of threat/reward may operate between branch manager and loan officer. However, unlike theoretical stipulations, the threat/reward system did not work very well in their case. Any encouragement/reward could be given only within institutional rules. The best reward that manager could give to loan officer for observing trust was a good report about loan officer to head office, which could result in promotion of loan officer. The manager was not in a position to impose any penalties on loan officer if he did not observe trust. The need to develop trust was determined by the branch manager and loan officer on the potential cost of not having trust as compared to potential benefits of having trust in relationship. As the potential benefits of trust in relationship were considered significant, the branch manager and loan officer thought it prudent to develop trust.

6.3.2.2 Knowledge based trust

In the second stage of knowledge based trust, with time, the manager and the loan officer acquired information about each other through proper communication and knowledge development. The branch manager became dependent on the loan officer with the passage of time.

6.3.2.2 Identification based trust

In the third stage of identification based trust, the branch manager delegated part of his lending authority to loan officer. The loan officer was authorised to deal directly with existing customers and to sanction loans against deposits. The loan officer was also delegated authority for sanction of loans within specified range. The branch

manager gradually became willing to risk delegation and the loan officer became willing to assume the risk in the third stage of trust. The loan officer was also authorised to complete all necessary documentation, paper formalities and disbursement of delegated loans on his own. The branch manager however did not delegate authority to sanctions loans which were unsecured or loans to new customers which were risky. The trust of branch manager was reciprocated by the loan officer who did not misuse the delegated authority given by the branch manager.

6.3.3 Analysis of Lending Performance of branch

The theory suggests that trust should contribute to the improvement in lending performance of the branch. The branch has shown substantial improvement in lending performance since the trust developed between branch manager and the loan officer. As given in the table 6.1 the branch has shown improvement in lending performance parameters such as number of loans, amount of loans given, recovery of non-performing assets, quality of assets and risk management of loans.

Table 6.1: Perception of Branch managers and Loan officers of Branch A on effect of trust on lending variables (% increase)

Perception	Perception of Branch Manager	Perception of Loan Officer	Average of perceptions
Number of Loan Accounts	50	20	35
Rupee amount of loans disbursed	50	70	60
Implementation of RBI/Head Office Directives	80	70	75
Recovery of non performing loans	10	10	10
Quality of asset management	50	100	75
Risk Management	10	10	10
Increase in loan income	10	90	50
Increase in loan expenses	10	60	35
Increase in profit on loans	10	10	10

The branch has also been able to increase its lending income. Although the perception of the branch manager and loan officer differ on the extent of increase in

branch performance parameters which can be attributed to trust in relationship, it is evident from Table 6.1 that trust between branch manager and the loan officer has contributed significantly to the lending performance of the branch.

6.3.4 Summary of Analysis of Case A

The trust between branch manager and the loan officer depends on the factors of trust as suggested in the theoretical framework of trust. But the trust development does not exactly follow the theoretical framework of trust. The background factors of similarity and ethnicity of the branch manager and loan officer significantly influence the way they relate to each other in trust. The supervisor subordinate relationship between the branch manager and loan officer also influence the way in which they interact with each other. The manager is the superior officer of the loan officer and in that capacity can influence the decision making process in the branch. This relationship is also influenced by the location of the branch in a business district, history of the branch as also the business pattern. Both the branch manager and the loan officer are cautious in dealing with customers and with each other. They do not trust each other blindly but as a part of a well thought out strategy for mutual benefit. Their relationship is determined by the organisational context in which they operate. The delegation of authority from branch manager to loan officer arising out of trust is a limited delegation. There is no ceding of authority by branch manager to loan officer. The cultural issues play some part in their relationship as caste/race and ethnicity influence their relationship. The organisational constraints are significant which can limit the extent to which both players can interact in their trusting relationship.

6.4 Analysis of Case B

This branch is located in a metropolitan area and is classified a medium sized branch. The branch structure deviates from the standard structure. The branch manager

has strong control and influence over branch activities. The branch manager controls loans department directly. The branch manager is assisted by assistant branch manager, loan officer and other officers in the management of the branch. The main deposit customers of the branch are local residents who maintain saving bank deposits and fixed deposits with the branch. The main lending business consists of agricultural loans and housing loans to local residents. The branch manager has adopted a deviation in lending procedure from the standard procedure of the bank. This has influenced the relationship between branch manager and loan officer.

The branch manager and the loan officer in this branch have worked with each other for about six months. The relationship between the branch manager and the loan officer is analysed in the context of trust factors, stages of trust development and the effect that trust might have on the lending performance of the branch. Although the branch manager and the loan officer claimed that their relationship was based on trust, it is observed that the nature of trust relationship between the two is very different from the theoretical framework of trust.

The branch manager told the researcher that he had a very bad relationship with the previous loan officer and consequently both the branch manager and the previous loan officer faced a number of problems in managing the lending portfolio of the branch. The branch lending performance deteriorated during the period. With a change in loan officer, the branch manager was able to develop a trusting relationship with the new loan officer and this change was instrumental in improving the lending performance of the branch.

The impact of trust in relationship can be understood in terms of the previous situation in the branch when the previous loan officer and the branch manager were in somewhat hostile relationship. According to the perception of the branch manager, the

lack of trust contributed to lack of performance in lending for the branch. According to the branch manager, the trust in the relationship between branch manager and new loan officer contributed significantly to the improvement in lending performance of the branch. With trust between branch manager and new loan officer, the lending services in the branch were improved and branch could develop lending business. With increase in lending business, the profit on lending increased and the quality of lending also improved.

6.4.1 Analysis of factors of Trust

6.4.1.1 Similarity

The first factor of trust in this analysis is similarity between the branch manager and the loan officer. The branch manager and the current loan officer had different perception about the factors that could contribute to the development of trust. Similarity in personal attributes and qualities appeared particularly significant in their relationship. Both of them had a very different work experience and came from different ethnic backgrounds. The working style of the branch manager was different from other branch managers, as illustrated by the lending procedure adopted at the branch. The branch manager discounted the role of the loan officer in dealing with people. According to the branch manager, the loan officer did not have a role in knowing the people but should know the local culture and business practice of the region.

In explaining the procedure adopted at the branch, the branch manager said that loan applications were received by the branch manager and borrowers were selected by the branch manager. Thus the first point of contact in this regard was the branch manager. The branch manager conducted the preliminary interview of the borrower and then referred them to the loan officer. The loan officer would then analyse the loan application. The final decision on the application was then taken by the branch manager.

The loan officer did not approve of this procedure but accepted it reluctantly as it was set by the branch manager.

6.4.1.2 Knowledge

The second significant factor of trust between branch manager and loan officer was knowledge. The loan officer in the branch provided the analytical skills, knowledge about lending policy and products, systems and procedures and made his recommendation to the branch manager. The knowledge about the lending procedure and practice appropriate to the business mix of the branch was used in the loan analysis. The knowledge base consisted of knowledge about local agriculture produce, equipment used and lending requirement of the local agriculturists close to the branch. Since deposit and lending business in the area are linked to each other, the branch had to develop knowledge about structuring relationship deals with local customers offering them packages containing both deposit and lending products.

6.4.1.3 Benevolence

The relationship between the branch manager and the loan officer did not seem to be very smooth as the loan officer felt that it was not necessary for the branch manager to be considerate to loan officer. The loan officer however sought protection from being exploited by the branch manager. The branch manager expected loyalty from the loan officer and expressed his willingness to recommend the loan officer for promotion to higher authorities although the branch manager contended that he was constrained in his choice of loan officer and could offer any recommendation only within organisational policies.

6.4.1.4 Behavioural Integrity

Since lending in the area was a highly competitive business and the demands of the customers created considerable stress on the loan officer and the branch manager,

and the ability to work under stress, proper prioritising of customers dealings and reliable communication between the two were considered important for the relationship by both branch manager and the loan officer. The branch manager was willing to give some leverage to the loan officer to explore the lending business independently of him but insisted that standards of performance were to be set by the branch manager and he was not willing to cede any control.

6.4.1.5 Behavioural Consistency

Behavioural consistency was considered a significant factor of trust between branch manager and loan officer in this branch. The branch manager and loan officer had different perception on what constituted behavioural consistency. Ability to work under stress was not considered important in the trust relation between branch manager and loan officer. The predictability of the trusted party was not considered important but the reliability of the trusted party was considered important by both branch manager and loan officer.

6.4.1.6 Communication

The next significant factor of trust is communication. Exchange of accurate information between branch manager and loan officer was considered necessary as a part of communication. Both branch manager and loan officer thought that the trusted party should be open to feedback received on bank's business. In the Indian context, sometimes superiors do not respond well to the feedback received from subordinates. The branch manager as superior officer sought to set transparency standards of job performance in the branch and wanted the loan officer to explore more.

6.4.1.7 Culture

Both the branch manager and the loan officer came from different parts of India with different cultural, personal and social beliefs. Despite these differences, they

were able to develop a trusting relationship within the organisational context and especially given the need to be able to work together in a competitive and risky environment. Their different caste/race and minority status was not a constraint in their relationship. Their religion was same and therefore a non-issue in this case.

6.4.2 Analysis of stages of Trust Development

Both the branch manager and loan officer claimed that the trust relationship between them was developed on the realisation that if there was no trust then branch performance could be affected and that could reflect on the individual performance of the branch manager and the loan officer.

6.4.2.1 Calculus based trust

The costs and benefits of trust were not determined in dollar value but only in terms of improvement in relationship. The costs arise from the lack of performance and benefits are improvement in the branch performance. However both the branch manager and loan officer had the thinking that they both of them worked for the organisation bank and had no personal stakes in the trust relationship. The threat/reward system was limited to the verbal reprimands by the branch manager. No cash benefit or reward was permitted under the organisational policy. Both branch manager and loan officer were expected to observe the organisational policy.

6.4.2.2 Knowledge based trust

The trust between branch manager and loan officer developed gradually into the second stage as the knowledge was developed. The communication between the two increased in second stage and this led to the predictability of the trusted party by the trusting party. The knowledge between the two is developed based on direct interaction

between the two and second order knowledge was not considered important in this stage.

6.4.2.3 Identification based trust

As the trust developed the branch manager gave limited delegation to the loan officer on some aspects of lending based on the urgency of the situation and subject to subsequent ratification of the branch manager. This delegation was an important issue for the loan officer as it demonstrated the trust of the branch manager in the loan officer.

However the loan officer was not very willing to be dependent on the branch manager to a large extent as “too much dependence leads to reduction in quality of loans, risk may increase and laxity in process may result”, according to the loan officer. The loan officer was not ready to completely identify himself with the branch manager but wished to operate within organisational context only.

6.4.3 Analysis of Lending Performance of Branch

The development of trust relationship between branch manager and the loan officer, although not very strong, did contribute to an improvement in lending performance of the branch as given in Table 6.2. The observed improvement included improvement in achievement of lending targets such as number of loans and rupee amount of loans, recovery of non-performing assets, quality of asset management and risk management.

Table 6.2 : Perception of Branch managers and Loan officers of Branch B on effect of trust on lending variables (% increase)

Perception	Perception of Branch Manager	Perception of Loan Officer	Average of perceptions
Number of Loan Accounts	30	100	65
Rupee amount of loans disbursed	30	100	65
Implementation of RBI/Head Office Directives	25	100	62.5
Recovery of non performing loans	50	100	75
Quality of asset management	40	100	70
Risk Management	40	100	70
Increase in loan income	40	100	70
Increase in loan expenses	40	100	70
Increase in profit on loans	40	100	70

This improvement is significant considering that the previous non-trusting relationship between the branch manager and the previous loan officer resulted in the deterioration of the lending performance of the branch.

6.4.4 Summary of Analysis of Case B

Trust between branch manager and the loan officer follow the theoretical framework of trust but not exactly in the same way as suggested by the theory. In this case, similarity, knowledge and benevolence are perceived to be more significant factors of trust than other factors. But both branch manager and loan officer have different opinions on how these factors influence their relationship.

The relationship between branch manager and loan officer was not very smooth as evidenced by the procedure set by the branch manager for the assessment of lending applications. The loan officer did not agree with the procedure but accepted it in the interest of developing the relationship further.

The trust between branch manager and loan officer developed in stages as suggested by the theoretical model of stages of trust development of Lewicki and Bunker (1996). Both the branch manager and the loan officer perceived the benefits of trust to be more than the cost of not developing trust. The third stage of identification

based trust as set out by theoretical model did not work exactly in the same way as suggested in theory. The loan officer did not want to identify himself with the actions of branch manager completely but wished to work with the branch manager only within organisational rules.

6.5 Analysis of Case C

This branch is located in a city of one million people considered backward in development. This city is in an agricultural heartland. There have been many industrial actions in the branch due to constant disagreements between branch manager and employee union, which resulted in disruption of business in the branch and lack of business development on the branch. The branch has a standard structure. The branch manager is assisted by the assistant branch manager, loan officer and other officers in the management of the branch. The main deposit business of the branch consists of saving bank deposits, fixed deposits and current accounts of business customers. The main lending business consists of housing loans, agricultural and plantation loans and loans to small business manufacturing customers.

This branch has a history of industrial action by staff. The branch has seen many industrial problems largely due to disagreements between the staff and the managers. Because of the industrial actions, the progress of the branch has been very slow. The relationship between the staff and the previous managers had affected the lending relationships. Both the branch manager and the loan officer have adopted a cautious attitude towards lending. The branch has also seen problems in lending that resulted in bad advances. This record of the branch has its effect on the relationship between the current branch manager and the loan officer. Both the branch manager and loan officer have developed cautious attitude towards lending and towards each other.

6.5.1 Analysis of factors of Trust

Although both branch manager and the loan officer claimed that trust was an important issue in development of the relationship between them, it was observed that trust level between the two was not very high. This is evidenced by the fact that considerable amount of lending work was attended by the manager himself although the loan officer was expected to do all the lending work.

6.5.1.1 Similarity

The Branch manager was not very confident of the abilities of loan officer in the lending business and preferred to attend the work himself sometimes. The working styles of the branch manager and the loan officer were very different. The branch manager was meticulous in detail and expected prompt action on loan applications and service to customers. But this quick action was not forthcoming from the loan officer, according to branch manager's expectations. A situation exacerbated by the loan officer's lack of prior experience in lending situation before this assignment. The branch manager considered prior experience of the loan officer in lending as essential but could do little in this regard as he had to select a loan officer from among the people available to him. For the branch manager, it was third or fourth branch he was managing as a branch manager. The branch manager was very experienced in the lending business but the loan officer was not. Due to his lack of experience in lending business, the loan officer had to depend on the branch manager for considerable guidance in lending situation.

6.5.1.2 Knowledge

The knowledge of the loan officer in regard to banks lending policies and products, analytical skills such as balance sheet analysis, financial and cash flow analysis skills and bank's system and procedures was limited. This lack of knowledge

and skill was a contributing factor in lack of progress in lending at the branch. The branch manager being a local person had considerable knowledge about people, place and customers which was considered important in development of trust.

6.5.1.3 Benevolence

The branch manager expected the loan officer to be loyal to him especially when the branch had seen industrial actions in the recent past. The branch manager had expressed his willingness to provide protection to the loan officer in case of any eventuality or contingency while working on loan portfolio. But the loan officer sought additional assurances in being protected and did not want to take risk in lending business.

6.5.1.4 Behavioural Integrity

Both the loan officer and branch manager agreed that behavioural integrity as a factor of trust was important in contributing to the relationship between the two. Behavioural integrity was observed through consistent past action of the trusted part, congruence between actions and words, through credible communication and honesty and integrity of the other party in the relationship.

6.5.1.5 Behavioural Consistency

Behavioural consistency was considered to be significant factor of trust. Ability to work under stress, proper prioritising of work and reliability and predictability of each other were considered important parts of behavioural consistency.

6.5.1.6 Communication

A proper and clear communication existed between the two but each of them had different expectations about the other. The loan officer thought that the branch manager should be open to feedback provided by the loan officer while the branch manager, as a superior officer, did not like to be advised by the loan officer.

6.5.1.7 Culture

The loan officer was from a different part of India whereas the Branch manager was a local person. Both of them had different social and personal beliefs but these were not considered important by both branch manager and the loan officer in their trust relationship. Further questioning revealed that, since there were no differences between the two in regard to race/caste, religion, ethnicity and minority status, these were not considered significant issues in their relationship.

6.5.2 Analysis of Stage of Trust Development

Due to history of this branch, the development of trust relationship between the branch manager and the loan officer in this branch was difficult. The uneasy relationship between managers with the staff union affected the relationship between people in the branch and the relationship between the branch manager and the loan officer.

6.5.2.1. Calculus based trust

Despite these difficulties, the branch manager and the loan officer realised that there were benefits in developing a trust relationship and recognised that severe costs in terms of underperformance are associated with a lack of trust. They both agreed that they could not work together in the prevailing atmosphere and business conditions at the branch, if there was no trust. Trust development was considered necessary for mutual benefit. In the prevailing tense work atmosphere, development was the best option available to both of them. Interestingly, the branch manager discounted use of any threats/reward system due to institutional rules and the adverse effect it might have on the rest of the branch.

6.5.2.2 Knowledge based trust

The branch manager and loan officer gradually developed knowledge about each other's behaviour, acquired important information about each other and were able to predict the behaviour of each other based on the knowledge acquired. This knowledge helped them in developing trust further. The second order knowledge from other sources was not considered important but only direct knowledge developed through work situation was considered important.

6.5.2.3 Identification based trust

Gradually, the dependence between the loan officer and the branch manager increased and the branch manager was able to delegate part of his authority to the loan officer. The branch manager authorised the loan officer to sanction loans against deposits, overdrafts against deposit, loan against government bonds, consumer loans and salary loans. All these loans are considered as secured loans. But the delegated authority was given for sanction of loans within specified limits only. The branch manager was willing to take only calculated risks in delegating authority to loan officer. The loan officer on his part was willing to assume limited risk on behalf of the branch manager. The loan officer started completing loan documentation on his own and also disbursed loans as agreed. As more delegation progressed, trust development increased between the branch manager and the loan officer.

6.5.3 Analysis of lending Performance

The trust between the branch manager and the loan officer resulted in an improvement in lending performance of the branch.

As evident from table 6.3, the branch registered improvement in achievement in targets of loans in terms of number of loan accounts and the rupee amount of loans, recovery of non performing assets, quality and risk management of assets and income derived from lending business. These improvements were attributed to trust relationship

between the branch manager and the loan officer. Although the increase in performance levels in this branch remained lower compared to other branches, the increase is

Table 6.3: Perception of Branch managers and Loan officers of Branch C on the effect of trust on lending variables (% increase)

Perception	Perception of Branch Manager	Perception of Loan Officer	Average of perceptions
Number of Loan Accounts	20	20	20
Rupee amount of loans disbursed	20	20	20
Implementation of RBI/Head Office Directives	20	100	60
Recovery of non performing loans	100	25	62.5
Quality of asset management	100	100	100
Risk Management	90	60	75
Increase in loan income	30	30	30
Increase in loan expenses	30	10	40
Increase in profit on loans	30	20	25

significant compared to previous performance of the branch. This increase was attributed to the improvement in the trust relationship between the branch manager and the loan officer and is considered significant in the light of tense relationship between the branch manager and the staff union at the branch.

6.5.4 Summary of Analysis of Case C

The development of trust between branch manager and loan officer in this branch had been very difficult because of industrial actions in this branch. The industrial actions resulted in lack of progress in this branch in lending business, made delivery of lending and other services difficult. This lack of progress in lending business put considerable pressure on the branch manager to improve lending business. The branch manager was very experienced in lending business but the loan officer was very new to the lending business. The loan officer did not want to take much risk and had considerable dependence on the branch manager for carrying out lending tasks. Despite these difficulties, there was a realisation between the branch manager and the loan officer that the development of trust between them was necessary if lending business of

the branch was to be improved. This realisation led to gradual development of trust in stages as suggested by theoretical model of Lewicki and Bunker (1996). It then became possible for the branch manager to delegate limited authority to loan officer in taking decisions on lending business. Trust development also led to improvement in the lending performance of the branch.

6.6 Analysis of Case D

This branch is located in a metropolitan area. The branch is situated in a business district which is surrounded by a residential area, educational institutions and hospitals. The branch manager is assisted by the assistant branch manager, loan officer and other officers in the management of the branch. The branch operates extension counters in other places apart from its own business premises. The main deposit business of the branch consists of saving bank and fixed deposits. The branch also has large corporate clients who maintain current accounts. The main lending business of the branch consists of lending facilities to large corporate clients, housing finance to local residents and education loans to students in the area.

The relationship between the branch manager and the loan officer is analysed in the context of the factors of trust, stages of trust development and the business mix of the branch. The business mix presents certain challenges to both the loan officer and the branch manager. The main lending business of the branch is dependent on the loans to large corporations and professionals such as doctors, engineers and lawyers.

6.6.1 Analysis of factors of Trust

Both the branch manager and the loan officer emphasised that due to their business environment, trust between the two was an important aspect of business development. A firm trusting relationship between the two would contribute to the development of the lending performance of the branch.

6.6.1.1 Similarity

Similarity as a factor of trust was not considered significant in this branch by both branch manager and loan officer. Similar approaches to work were not considered important as different approaches became acceptable. Similar personal qualities were also not considered important. Previous experience in a lending environment was however considered important as contributing to the trust relation.

6.6.1.2 Knowledge

One of the most important factors in trust development was knowledge. As the branch had to deal with a set of clients that were very well educated, better informed and demanding, knowledge about banks policies and products, systems and procedures was vital. In addition, knowledge about a client's business, their lending requirements and about the place of business was necessary to the development of good business relations. The knowledge requirements in this case consisted of using analytical skills such as balance sheet analysis, credit analysis skills and relationship development skills with corporate and professional clients. The professional clients demanded proper structuring of business lending and allied products from the branch as a package. Coordination with different departments in the branch and proper service was one key to the improvement of branch performance. The loan officer and the branch manager would not be able to deliver the kind of service expected from these clients without fostering a trusting relationship between each other.

6.6.1.3 Benevolence

While the branch manager and the loan officer were sensitive to the needs of each other, the branch manager as being a superior officer, demanded loyalty from the loan officer. On his part, the branch manager was willing to recommend the loan officer for promotion to higher authorities. The loan officer in this branch had previous experience of working as a branch manager in a smaller branch and accepted relocation

as a loan officer due to family needs. Having worked in a similar position, the loan officer was aware of the constraints faced by the branch manager in his position. The loan officer's appreciation of the branch manager's difficulties contributed to the trust between the two.

6.6.1.4 Behavioural Integrity

The next factor of trust is behavioural integrity. Acting consistently on loan decisions was considered important. Behavioural integrity was observed from consistent past actions. Credible communication between loan officer and branch manager helped in observing behavioural integrity. Congruence between actions and words and honesty and integrity of the trusted party were considered as important aspect of behavioural integrity.

6.6.1.5 Behavioural Consistency

The next significant factor of trust was behavioural consistency. Ability to work under stress was considered important as part of behavioural consistency as lending is a stressful business. The reliability and predictability of the loan officer was considered important as part of behavioural integrity by branch manager and similarly the branch manager wanted the loan officer to be reliable and predictable.

6.6.1.6 Communication

The sixth factor of trust is credible communication between branch manager and loan officer. Exchange of accurate information between branch manager and loan officer was considered important for effective communication. The loan officer wanted the branch manager to be open to feedback. In the Indian context, superiors are usually not very open to feedback.

6.6.1.7 Culture

Since the branch manager and the loan officer came from similar cultural background therefore culture was not an issue with them. Religion, race/caste, minority and ethnic status was not an issue with them as they had similar background in respect of these factors. The cultural similarity helped in contributing to the development of trust between the two.

6.6.2 Analysis of stages of Trust Development

The loan officer and the branch manager had worked together in their respective positions for about one and a half years together.

6.6.2.1 Calculus based trust

Initially they had to strive hard to foster a trusting relationship but agreed that because they worked in a comparatively demanding lending situation, trust needed to be developed. It took them sometime to get to know each other well, but the realisation that lack of trust could result in the lack of performance motivated them to develop a trusting relationship. There was no scope for any threat or reward as the institutional rules did not allow any use of threats or rewards.

6.6.2.2 Knowledge based trust

The second stage of trust is knowledge based trust. As the trust progressed, the branch manager and loan officer obtained information about each other and developed knowledge. The information was obtained by directly working with each other. The second order information was also used for the purpose. The knowledge obtained helped in predicting the behaviour of each other and further development of trust

6.6.2.3 Identification based trust

As trust levels increased, the branch manager gave limited delegation of authority to the loan officer on some aspects of lending depending on the situation. The

delegation was limited to 5-10 per cent of the lending decisions. Ninety per cent of the lending decisions were still made by the branch manager. Although the delegation of branch manager's authority was an important issue for the loan officer as the delegation demonstrated trust, the branch manager preferred to retain limited delegation due to the nature of clients, nature of business and Head Office requirement.

6.4 Analysis of lending Performance

The continuation of trust relationship contributed substantially to the improvement of lending performance of the branch.

Table 6.4: Perception of Branch managers and Loan officers of Branch D on effect of trust on lending variables (% increase)

Perception	Perception of Branch Manager	Perception of Loan Officer	Average of perceptions
Number of Loan Accounts	25	75	50
Rupee amount of loans disbursed	25	75	50
Implementation of RBI/Head Office Directives	25	75	50
Recovery of non performing loans	50	100	75
Quality of asset management	50	100	75
Risk Management	50	75	62.5
Increase in loan income	100	100	100
Increase in loan expenses	10	100	55
Increase in profit on loans	80	100	90

From table 6.4 it is observed that, the branch was able to improve its lending performance in the areas of achieving lending targets, implementation of RBI/HO directives on lending, recovery of non-performing assets, quality of asset and risk management as well as profitability of loans. As the branch was located in a metropolitan area, these performance parameters compared well with the performance of other branches in the region as a whole.

6.6.4 Summary of Analysis of Case D

The relationship between the branch manager and loan officer follow the theoretical framework of trust as discussed in chapter 3 of this thesis. Knowledge,

benevolence and culture were considered to be more significant factors of trust in this branch than other factors. The development of trust between branch manager and loan officer followed the theoretical model of trust development of Lewicki and Bunker (1996). The branch manager and the loan officer developed trust due to realisation that lack of trust could result in underperformance of the branch. As trust developed to the third stage, the branch manager delegated part of his lending authority to the loan officer. According to the perception of both the branch manager and loan officer, the continuation of trust between them also contributed significantly to an improvement of the lending performance of the branch.

6.7 Analysis of Case E

This branch is located in a metropolitan city. The branch operates two extension counters in addition to the premises where it is located. The branch faced considerable lending problems in the past due to bad loans. The branch is managed by a very senior branch manager who is assisted by an assistant branch manager, loan officer and other officers. The main deposit business of the branch consists of a saving bank, fixed deposits and current accounts from business customers. The main lending business of the branch consists of loans to small business manufacturing units located in target area, loans to small businesses under government schemes and loans to real estate developers.

The relationship between branch manager and the loan officer in this branch is different from the relationships in previous cases. The branch manager and loan officer had a previous relationship in a work situation and had known each other for sometime. The relationship between branch manager and the loan officer of this branch is analysed in the context of their previous relationship, the business mix of the branch and also in the context of the previous loan losses of the branch. These loan losses occurred due to lending by the branch to borrowers under various government sponsored lending

schemes. The loans given under this category were not recovered back in many cases causing loan losses to the branch.

6.7.1 Analysis of Factors of Trust

The loan officer was hand picked by the branch manager from another branch. Since the prior relation between the branch manager and the loan officer were good, it was not difficult for the loan officer and the branch manager to develop a trusting relationship.

6.7.1.1 Similarity

There were many similarities between the branch manager and the loan officer – similarity in work style, similarity in personal qualities. Although the branch manager contended that previous experience in lending was an important issue, the current loan officer did not have any previous lending experience before he started working as a loan officer. All his knowledge and experience was developed on the job. The branch manager had substantial experience as branch manager and was able to help and supervise loan officer in learning about lending business.

6.7.1.2 Knowledge

The branch is basically a deposit oriented branch and the lending business in the area is very competitive. In order to obtain good lending business in the area, it was necessary that the loan officer developed a good knowledge about bank's lending product and services, systems and procedures and also about people, place and customers in the area. The lending business of the branch consisted of loans to small manufacturing firms in the designated industrial area. It was necessary that the loan officer possess knowledge about industrial loans and export credit. Some businesses also engaged in trading activity in the area. Lending to the trading businesses required knowledge about their business operations and lending products suitable to that

category of clientele. Lending to real estate developers and individual needing housing loans required knowledge about the products and services in housing loans. The branch manager insisted that analytical skills such as balance sheet analysis skills, financial analysis and cash flow analysis skills were important aspects of lending skills required to analyse the loan proposals in the target area of the branch.

6.7.1.3 Benevolence

One reason why branch manager selected a loan officer of his choice was because he expected the loan officer to be loyal to him. As an incentive for loyalty, the branch manager offered to recommend the loan officer for promotion. However, any promotion to loan officer could only be given within the rules and regulations of the bank. The loan officer placed his loyalty with the organisation before his loyalty to branch manager. To quote the loan officer “the need to be loyal to the organisation was more important than being personally loyal to the branch manager.” Because the lending business was risky, the loan officer sought protection from being exploited by the branch manager and also protection in case of an eventuality or contingency. While the branch manager was willing to provide protection against any contingency, it was to be within the organisational rules and procedures.

6.7.1.4 Behavioural Integrity

The branch manager had the opportunity to observe the actions of the loan officer at another branch and through other colleagues. Consistent past actions of the loan officer were instrumental in the initial selection of the loan officer to the position. The loan officer had also observed the actions of the branch manager before accepting the position of loan officer. This past action and information resulted in enhanced trust development between the two, supplemented by regular communication, predictability and reliability in behaviour.

6.7.1.5 Behavioural Consistency

The next factor of trust considered significant is behavioural consistency. As a part of behavioural consistency both branch manager and loan officer considered it important that the trusted party had an ability to work under stress as bank lending was a stressful work. They also considered the reliability and predictability of the other person to be important aspect of behavioural consistency.

6.7.1.6 Communication

The sixth factor of trust considered significant is communication. Exchange of accurate information between the trusting party and trusted party was considered important in communication. Both branch manager and loan officer wanted the other to be open to feedback received from them.

6.7.1.7 Culture

The next significant factor of trust is culture. The branch manager was a senior manager in the bank's hierarchy and the loan officer was conscious of the value of affiliating with a senior and influential branch manager. The loan officer could use the influence of branch manager for recommendations in future. The branch manager and the loan officer came from similar cultural, race/caste, ethnic background. Since there were no differences between the two in this regard, these issues were not considered important by both loan officer and branch manager in the development and sustenance of trust building.

6.7.2 Analysis of stages of trust development

Although the branch manager and the loan officer had prior knowledge of each other and came from a similar cultural background, they both were working in an

organisational context in a place which was away from their native place and had a specific business orientation.

6.7.2.1 Calculus based trust

The two were able to develop trust soon but had to make effort to understand each other. There was a realisation that if there was no trust then there could be severe costs to both of them in terms of underperformance of the branch. Both the branch manager and loan officer agreed that a trusting relationship could lead to better performance of the branch. After an initial period, the trust relationship developed subsequently through better knowledge of each other and observation of behaviour. As trust developed, the branch manager became more dependent on the loan officer.

6.7.2.2 Knowledge based trust

In the second stage of trust development the loan officer and branch manager developed knowledge about each other by obtaining information about each other. In this stage of trust development, the communication between branch manager and loan officer increased with time and they obtained information from secondary sources in the branch as well although the loan officer did not think that second order knowledge was important in trust development. The knowledge development helped in improving the predictability of each other and further improved the trust between them.

6.7.2.3 Identification based trust

In the third stage of identification based trust, the branch manager delegated part of his authority to the loan officer. The loan officer was authorised to deal directly in certain areas of lending. But the branch manager did not relinquish his control in any way. He insisted that “delegation required control and there should not be complete delegation.” The loan officer however conceded that delegation was an important issue in trust development with the branch manager.

6.7.3 Analysis of Lending Performance of Branch

Both the branch manager and the loan officer agreed that development of trust between the two resulted in improvement of the lending performance of the branch which would not have been possible if there was no trust development between the two. As a result of development of trust between branch manager and loan officer, the branch was able to improve its performance in the recovery of non-performing assets. The branch experienced many problems in the recovery of nonperforming assets in the past. That trend was reversed and branch achieved some recovery in the non-performing assets.

Table 6.5: Perception of Branch managers and Loan officers of Branch E on effect of trust on lending variables (% increase)

Perception	Perception of Branch Manager	Perception of Loan Officer	Average of perceptions
Number of Loan Accounts	25	10	17.5
Rupee amount of loans disbursed	25	10	17.5
Implementation of RBI/Head Office Directives	25	10	17.5
Recovery of non performing loans	50	10	30
Quality of asset management	50	10	30
Risk Management	20	50	35
Increase in loan income	25	50	37.5
Increase in loan expenses	10	50	30
Increase in profit on loans	25	50	37.5

From table 6.5 it is observed that the branch was also able to improve its performance in lending targets such as number of loans and rupee amounts of loans, quality of asset management and quality of risk assessment. The branch was also able to improve its profitability in the lending business through increase in lending income and profit on loans, which included interest and fee income on loans. This increase in performance was partly attributed to trust relationship between the branch manager and the loan officer.

6.7 4 Summary of Analysis of Case E

The branch manager and loan officer had worked together previously in another work situation. They knew each other well before the start of their relationship in this branch as branch manager and loan officer. The previous knowledge about each other contributed to the development of trust in this branch. The trust developed and grew quickly in the first stage and second stage of knowledge based trust.

The loan officer identified himself with the branch manager in the third stage of identification based trust. The branch manager was an influential person in bank's hierarchy. The loan officer perceived some benefits in associating himself with the branch manager. In this third stage, the branch manager delegated part of his lending authority to the loan officer, but did not completely relinquish control.

The development of trust between branch manager and loan officer contributed to an improvement in lending performance of the branch. The branch was able to improve its performance on some lending indicators. In particular, the branch was able to improve the recovery of non-performing assets. This improvement in recovery of non-performing assets was attributed by branch manager and loan officer to the development of trust between the two.

6.8 Analysis of Case F

This branch is located in an industrial area which has a cluster of small manufacturing units. This branch also operates extension counters. The branch manager is assisted by assistant branch manager, who is also loans officer and two more officers. The branch faces considerable staff shortages. The major deposit business of the branch consists of savings bank deposits, fixed deposits and current accounts from business customers. The major lending business of the branch consists of loans to small

manufacturing units, loans against deposits and loans to small businesses such as auto rickshaw operators.

The relationship between the branch manager and the loan officer in this branch is very different from other branches. Both the branch manager and loan officer are doing a considerable amount of additional work. The branch manager is managing some departments in the branch in addition to looking after his functions as branch manager. The loan officer of the branch is also the assistant branch manager and looks after the work of assistant branch manager in addition to managing loans department. The degree of dependence between the branch manager and the loan officer is very high in this branch as compared to other branches because branch has only two officers excluding branch manager and the loan officer whereas in other branches with similar volumes of business, the number of officers is more.

Although the loan officer is a subordinate officer of the branch manager, he automatically succeeds the branch manager in his role in the absence of the branch manager. The relationship between the branch manager and the loan officer is analysed in the context of this organisational situation and also in terms of the business mix of the branch.

6.8.1 Analysis of Factors of Trust

6.8.1.1 Similarity

The first factor of trust is similarity. Branch manager and loan officer come from similar background in terms of work style and background. Both of them had previous experience in lending before assuming their present roles. The branch manager acknowledged that similarity in work experience contributed to development of trust between himself and the loan officer. It was however not easy to find a loan officer who would be similar in characteristic to himself. The branch manager observed that there

were constraints in the selection of a loan officer with similar characteristics as his own because a selection had to be made from the people available in the branch. Since he did not have many people, “I am in charge and I have to make adjustments”. The relationship between the branch manager and the loan officer is subject to organisational constraints of availability of suitable personnel. Since there is a staff shortage in the branch, the branch manager has to make adjustments frequently to work schedules and also depend on the loan officer to carry out other responsibilities in addition to loan management.

6.8.1.2 Knowledge

The second significant factor of trust was considered to be knowledge by both branch manager and loan officer. Knowledge about the products and services in small scale industry finance was considered important for development of trust by both branch manager and loan officer as also the knowledge of the people, place and customers. The major lending customers of the branch were small manufacturing customers. They obtained credit facilities and financing suitable to their needs. The knowledge about the services to small business and their lending needs contributed to the development of business in the branch. In addition, the knowledge of local area was considered important for marketing of bank’s products. There were communication requirements in the local area as people used a local dialect. Local employees of the bank were considered useful in analysing the creditworthiness of the customers as they were able to communicate better with local customers due to their ability to communicate in the local dialect with customers.

6.8.1.3 Benevolence

The third factor of trust is benevolence. As a part of benevolent actions of the loan officer, loyalty of loan officer was considered significant by the branch manager.

Loyalty was important in this branch because the branch manager did not have the same level of control on the loan officer as branch manager in other branches had. As part of his benevolent actions, the branch manager considered recommending loan officer to higher authorities for promotion and to provide protection to loan officer in case of eventuality such as mistakes in lending. As part of benevolence of the branch manager, the loan officer considered the need for not being exploited by the branch manager as significant. The branch manager being superior in hierarchy could exploit the loan officer. According to the loan officer, “the work in the branch is a team work and exploitation should not be there.” The loan officer seemed to be very confident in dealing with the branch manager as his relative position as assistant branch manager was strong. The issue of exploitation of the loan officer by the branch manager was less significant in this branch due to the relative position of the loan officer in the branch.

6.8.1.4 Behavioural Consistency

The next significant factor of trust is behavioural consistency. The ability to handle work under stress, proper prioritising of work, reliability and predictability of each other were considered important by the loan officer and the branch manager as part of behavioural consistency of each other. The officers in this branch were very much stressed due to shortage of officers and this situation had its effect on proper prioritising of work and behavioural consistency of officers.

6.8.1.6 Communication

The next significant factor of trust is communication. In addition to maintaining regular communication between themselves it was considered necessary by branch manager and loan officer to maintain communication skills in local dialect. The lack of communication in local dialect could result in communication gap with the local

customers and loss of business. A loss of business could have its effect on trust between branch manager and loan officer

6.8.1.7 Culture

The last significant factor of trust was culture. Social beliefs were considered significant as cultural factors because customers in the area had certain social beliefs. It would help branch manager and loan officer to deal with customers easily if they had similar beliefs as customers. Both the branch manager and loan officer came from the local area of the branch and had similar social beliefs as their customers, which made it easy for them to deal with customers. The next component of culture is ethnicity. In regard to ethnicity, the loan officer was of the opinion that different ethnicity between the manager and the loan officer was better because outside people could rely on loan officer and develop trust. In a way the loan officer implied that local people in the branch usually got involved in local social and political groups and such involvement was not healthy for the branch as local politics could be carried to the branch as well. For the branch manager, difference in ethnicity was not a significant issue.

6.8.2 Analysis of stages of trust development

The trust between branch manager and loan officer in this branch developed in stages as suggested by the theory. The branch manager and the loan officer had worked with each other for a period of time. Initially it took sometime for trust to develop. Due to organisational structure of the branch and due to relative position of the loan officer, who was also the assistant branch manager, it was considered prudent by the branch manager to develop a trust in the relationship with the loan officer.

6.8.2.1 Calculus based trust

The theory suggests that in the first stage of trust, a system of threat and reward could be used by the trusting party for the development of trust. The branch

manager in this branch was not in a position to use a threat against the loan officer as the same could create problems in the management of the branch. The branch manager was also not in a position to provide a reward to the loan officer in any way as no rewards could be given except within organisational rules.

6.8.2.2 Knowledge based trust

In the second stage of trust development, the branch manager and loan officer gathered information about each other by improving communication between them. This information was obtained by having direct interaction on the job and also from secondary sources such as colleagues and customers. This knowledge helped in improving predictability of each other and consequently helped in improving trust between the two.

6.8.2.3 Identification based trust

In the third stage of identification based trust, the branch manager delegated some authority to loan officer but only subject to his ratification for control purpose. Only part of his authority was delegated by branch manager to loan officer, subject to confirmation by the branch manager. The delegation was given only on specific aspects of lending and was not available generally.

6.8.3 Analysis of lending performance of the branch

Both the branch manager and the loan officer agreed that trust relationship between the two resulted in improvement of the lending performance of the branch despite the organisational constraints.

As given in Table, 6.6 the branch was able to improve its performance on number of loans, amount of loan disbursements, implementation of Reserve Bank of India/head office directives, recovery of non-performing assets, quality of asset management and profitability of loans. The Branch manager further emphasized that the

branch performance on lending parameters could be further improved through understanding and mutual trust already developed, as the trust in relationship could speed up the process of loan assessment, disbursement and help in increasing the lending business of the branch

Table 6.6: Perception of Branch manager and Loan officer of Branch F on effect of trust on lending variables (% increase)

Perception	Perception of Branch Manager	Perception of Loan Officer	Average of perceptions
Number of Loan Accounts	50	50	50
Rupee amount of loans disbursed	50	50	50
Implementation of RBI/Head Office Directives	80	70	75
Recovery of non performing loans	30	30	30
Quality of asset management	60	40	50
Risk Management	60	70	65
Increase in loan income	40	50	45
Increase in loan expenses	20	10	15
Increase in profit on loans	25	50	37.5

6.8.4 Summary of Analysis of case F

This case particularly highlights the organisational constraints of staff shortage that have contributed to the need for developing a trust in relationship between the branch manager and the loan officer. Both the branch manager and the loan officer faced a difficult situation at the branch due to staff shortage. They tried to overcome this constraint by developing trust in the relationship. It was however not easy for the branch manager and loan officer to develop trust, as they faced some constraints in their relationship. The first constraint was the availability of officers in their branch. Due to staff shortage, the branch was not able to deliver services promptly to customers. This constraint also affected the relation between branch manager and loan officer as their performance was affected. The second issue was that loan officer was also the assistant branch manager and the branch manager did not have the same level of control on the loan officer as managers in other branches had. The branch manager's expectation of

loyalty from the loan officer was not fulfilled, which affected their relationship. However, trust developed between the two in stages. Trust was considered significant by the branch manager and loan officer in improving the lending performance of the branch.

6.9 Analysis of Case G

This branch is located in southern India in a metropolitan city. This city is known for its business process outsourcing (BPO). Many of the branch customers are engaged in provision of IT business process outsourcing services to overseas companies. In addition, the branch provides credit to some of the large corporations located in the city. The branch has experienced problems in the growth of business in lending and deposits in the past due to previous manager's performance. The current branch manager was therefore keen to develop branch business. The case is analysed keeping in view the managerial attitude towards achieving development and growth in branch business.

6.9.1 Analysis of factors of Trust

The branch manager and the loan officer were in agreement that trust between them was significant in contributing to the business development of the branch. The first significant factor of trust between branch manager and loan officer was similarity.

6.9.1.1 Similarity

The branch manager and the loan officer had a similar work ethic in terms of their attitude towards risk in lending. Similar work styles were considered important to trust. According to loan officer, "different work styles could result in a loss of business for the branch". If the branch manager and the loan officer had differing attitudes towards risk in lending, then it could create confusion in the minds of some customers and these customers may take their business elsewhere.

The second part of similarity was similarity in previous experience in lending. Previous experience in lending business was considered desirable but not necessary by the branch manager. According to the branch manager, “it was helpful but people could learn on the job.” If previous experience was taken into consideration in selecting a loan officer, then it could create problem for the branch manager. According to the branch manager, “there were institutional constraints in selecting a loan officer as the job was allocated on a rotation basis. Since the branch manager was in-charge, he would have to make adjustments with the loan officer”. The policy of job rotation affected the selection of people for the job of loan officer.

6.9.1.2 Knowledge

The second significant factor of trust is knowledge. The branch had a focus on lending to corporations and BPO firms. Knowledge about the bank’s policies and procedures in the area of lending to corporations and BPO units were important for business development. In addition, analytical skills used in corporate lending such as balance sheet analysis, financial and cash flow analysis skills were considered important in lending management and trust relationship. Knowledge about people, place and customers was also considered significant in achieving the growth of the branch lending business as this knowledge helped in identifying the needs of existing and potential customers and develop business proposals for them.

6.9.1.3 Benevolence

The third factor of trust is benevolence. This is the only branch studied that has a female loan officer. The loan officer wanted the branch manager to be considerate to her need. Being a female she was not able to work late hours and on weekends. The loan officer also insisted that branch manager should provide protection to the loan officer in case of any mistakes or eventuality in lending business. As part of loan

officer's benevolence towards branch manager, the branch manager wanted the loan officer to be loyal to him as a subordinate. But for the loan officer, "loyalty to the organisation was important. Loyalty to manager may not result in an optimum outcome for the organisation. Manager and organisation should be separated." The loan officer's perception of loyalty differs from that of the manager who demands complete loyalty from the loan officer on all his lending decisions.

As part of his own benevolence towards the loan officer, the branch manager offered to recommend the loan officer to head office for promotion. The branch manager, however, contended that "any recommendation could be given based on the appraisal system in place at the bank. Any protection could be available only for general mistakes. There would be no tolerance for fraud. The intention was important issue in providing protection." The branch manager did not offer a blanket protection to the loan officer for mistakes committed in lending management, but offered only conditional protection. The branch manager also made it clear in his response that there would be no tolerance for fraudulent actions. It is apparent that benevolence and mutual consideration in trust relationship between branch manager and loan officer in this branch is limited by the organisational constraints in place. The branch manager and loan officer do not want to go beyond a certain point in considering each other's needs, although wish to be benevolent to each other.

6.9.1.4 Behavioural Integrity

The next significant factor of trust is behavioural integrity. Both branch manager and loan officer observed each others action and thought that acting consistently was important part of behavioural integrity. Credible communication between the two helped in developing trust further. Congruence between action and

words and honesty and integrity were considered important by both branch manager and loan officer as part of behavioural integrity.

6.9.1.5 Behavioural Consistency

The next significant factor of trust is behavioural consistency. The branch had considerable number of corporate clients who had varied demands on their lending requirements. The demands of corporate clients caused considerable stress to both the branch manager and loan officer. The ability to work under stress and prioritisation of customer contacts were considered important as part of behavioural consistency.

6.9.1.6 Communication

The next factor of trust is communication. The branch manager and the loan officer had regular communication and discussion with each other. The loan officer wanted the branch manager to be open to feedback provided by her. The loan officer said that “most of the people do not like feedback. I trust the manager. I do the work. On few occasions feedback was given and accepted.” Obviously the manager did not accept the feedback on many other occasions. The branch manager was superior and in the Indian contexts the superiors do not like the subordinates to advise them.

6.9.1.7 Culture

The seventh factor of trust is culture. Sensitivity to the local cultural and traditional values was considered important issue of working in this branch by branch manager and loan officer. For the branch manager, “awareness of the local tradition is important. Behaviour and attitudes come from beliefs.’ The branch manager and the loan officer were local people and well aware of the local traditions and beliefs. The explicit knowledge of these beliefs was important for operational requirements of the branch. Since there were no differences in race/caste, religion and ethnicity between branch manager and loan officer, these were not significant issues although gender of

the loan officer was an issue because female employees would not work after hours if there was a need. They had family obligations and this was important to loan officer.

The response of the branch manager to the attributes of trust is reflected in his remarks. “I want most of the qualities and attributes in the loan officer. In public sector banks, knowledge and information can be given. What you can’t get is attitude. The branch did not progress for last 4-5 years. From my personal experience right motivation and involvement of all people is essential for the development of the business. People can increase knowledge but there is resistance to change. If people can change attitude, lot can be achieved. Relationships are important.” The loan officer’s response was that. “If you have these qualities in an official situation, it is a happy situation, otherwise by 6.30 PM we may wind up the day.” The branch manager and loan officer developed trust because of the need to improve the branch performance but have certain reservations about the approach taken by the other.

6.9.2 Analysis of stages of Trust Development

6.9.2.1 Calculus based trust

The trust relationship between branch manager and the loan officer was developed because both of them realised that there were costs of not having trust and benefits of having in trust relationship. Although trust in relationship increased over time through better communication and knowledge development of each other, the loan officer did not identify herself completely with the branch manager’s actions and attributes. She had differences with branch manager on the factor of loyalty and what constituted benevolence.

6.9.2.2 Knowledge based trust

In the second stage both branch manager and loan officer obtained information about each other through improved communication. The information was obtained by

direct interaction between the two and also through secondary sources such as other colleagues in the branch and customers. The feedback received from customers and colleagues were considered important part of knowledge development. This knowledge development helped in improving the predictability of each other and also helped in improving trust between the two.

6.9.2.3 Identification based trust

With the development in trust, the branch manager was able to delegate 75 per cent of his lending authority to loan officer subject to subsequent confirmation. As the system did not allow, the loan officer did not have an independent decision making authority. All final decisions on lending were to be taken by the branch manager although branch manager would not take decisions without consulting loan officer. The loan officer wanted that selected delegation subject to confirmation be increased to 100 per cent but the branch manager was willing to delegate only limited authority.

6.9.3 Analysis of lending Performance of the Branch

Since the start of trust relationship between the branch manager and the loan officer, the branch has achieved progress in its lending parameters. The increase in branch lending performance was attributed to trust relationship between branch manager and loan officer and is given in table 6.7 .

The improvement was made in lending accounts and rupee amount of loans, implementation of RBI/HO directives, recovery of non performing assets, quality of asset and risk management. The profitability on lending also increased. It was suggested by the branch manager that further improvements in lending performance could be achieved through better trust relations between branch manager and the loan officer.

Table 6.7: Perception of Branch manager and Loan officer of Branch G on effect of trust on lending variables (% increase)

Perception	Perception of Branch Manager	Perception of Loan Officer	Average of perceptions
Number of Loan Accounts	90	90	90
Rupee amount of loans disbursed	90	90	90
Implementation of RBI/Head Office Directives	90	90	90
Recovery of non performing loans	90	100	95
Quality of asset management	60	100	80
Risk Management	100	100	100
Increase in loan income	100	50	75
Increase in loan expenses	100	50	75
Increase in profit on loans	90	30	60

6.9.4 Summary of Analysis of case G

This is the only branch studied which has a female loan officer. The gender of the loan officer contributed to some issues in development of trust between branch manager and loan officer. Being a female the loan officer was not able to work late in the evenings and on weekends. However both the branch manager and loan officer realised that development of trust was necessary for the growth of the branch and improvement of lending performance of the branch.

Similarity, knowledge, benevolence, behavioural integrity and culture were significant factors of trust between branch manager and loan officer in this branch. There were differences between branch manager and loan officer on how these factors of trust contributed to the development of trust. For example, branch manager wanted the loan officer to be personally loyal to him as a part of her benevolence whereas the loan officer thought institutional loyalty was more important than personal loyalty to branch manager. Despite these differences, the branch manager and loan officer were able to develop trust. The branch manager also delegated part of his lending authority to

the loan officer. The trust between branch manager and loan officer contributed to the development of lending business of the branch and lending performance of the branch.

6.10 Analysis of Case H

The branch is located in a semi-urban place considered to be part of a backward district. The district has a predominantly agricultural economy with some small manufacturing units. The branch is managed by a branch manager, assistant branch manager, loan officer and other officers. The main deposit business of the branch is savings bank accounts, fixed deposits and deposits from institutional customers such as local colleges and hospitals. The main lending business consists of agricultural loans, loans to small manufacturing units and loan against deposits.

This branch has suffered problems in growth and development because of lack of development in the district it is located. The branch is located in a semi-urban centre which is part of backward district classified as such by the government. The classification is based on the degree of development in the district. The district economy is based on agriculture and a large number of small manufacturing units, which are located in an industrial estate. These units are located in the district because government subsidy is available in the area for setting up units. The branch has faced a number of problems in the lending business in the past. The relationship between the branch manager and the loan officer is determined based on lack of progress in the branch and also based on past lending problems.

6.10.1 Analysis of factors of trust

Trust is considered significant in the relationship between the branch manager and the loan officer as “good trusting relationships contribute to the lending performance of the branch.”

6.10.1.1. Similarity

Both branch manager and loan officer had different working styles and it did not influence their relationship because according to the branch manager, “the only important thing to be considered was that the performance of the branch is not affected. According to the loan officer, “it is very rare that personal qualities are similar.” Similarity was therefore not a significant issue in their relationship.

6.10.1.2 Knowledge

Knowledge specific to the needs of the customers was however an important issue. The business mix of the branch was such that most of the loans were in the agriculture sector or in the small business sector. Small business loans consisted of loans to small manufacturing units or loans to traders engaged in trading of agricultural commodities. Knowledge of bank’s policies and products, systems and procedures in these areas of lending were considered necessary to enable the branch to deliver the service. In addition the loan officer was also required to know the procedure involved in the government subsidy to small business and small manufacturing units. Knowledge about local people, place and customers was necessary for the development of lending business.

6.10.1.3 Benevolence

The branch manager wanted the loan officer to be personally loyal to him in all his decisions. The loan officer emphasized the need for institutional loyalty rather than personal loyalty to branch manager. On his part the loan officer wanted protection in case of any mistakes in lending or in case of loan losses and protection from being exploited by the branch manager as a superior officer. The branch manager as superior officer could force decisions on loan officer or could ask him to ignore some lending requirements. The branch manager agreed to provide the protection conditional upon the fact that errors committed by the loan officer were without negligence and not on

purpose. According to branch manager “protection is available if mistakes are made without bad intentions. Intention is an important factor.”

6.10.1.4 Behavioural Integrity

The next significant factor of trust is behavioural integrity. Behavioural integrity was determined by observing the past action of each other by loan officer and branch manager. Acting consistently was considered important as part of behavioural consistency. Congruence between actions and words and honesty and integrity of each other were also considered important as also credible communication between the two which helped in development of trust.

6.10.1.5 Behavioural Consistency

The sixth significant factor of trust is behavioural consistency. The ability to work under stress was considered important because bank lending in a branch which has not seen much development can be challenging and stressful as there were considerable pressures to develop the business potential of the branch. The branch manager observed that although ability to work under stress was important it was usually not available. Reliability and predictability of the other party was considered important as part of behavioural consistency.

6.10.1.6 Communication

The communication between the branch manager and the loan officer was considered reliable. The branch manager however wanted the loan officer to be receptive to the feedback given by him. Likewise the loan officer expected the branch manager to provide him with proper feedback.

6.10.1.7 Culture

Cultural issues between the loan officer and the branch manager were particularly important in this branch. The branch manager came from a caste which had

a quota for reservation as per policy of the government whereas the loan officer was from a caste which had no reservation. Although the day to day performance at the work place was not influenced by the caste factors, both the loan officer and the branch manager were conscious of their respective caste status. The branch manager considered that better trust could be developed with a person from the same ethnic group. Since the religion of the branch manager and the loan officer was same, religion was not an issue.

6.10. 2 Analysis of stages of trust development

Both the branch manager and loan officer worked together in the lending management of the branch for a period of time and agreed that trust between them took some time to develop.

6.10.2.1 Calculus based trust

In the initial stages, branch manager and the loan officer realised that if trust was not developed then the performance of the branch could be affected. The cost of non performance could be significant to both of them. This realisation forced them to work together.

6.10.2.2 Knowledge based trust

In the second stage of trust, the branch manager and loan officer developed knowledge about each other through improved communication and obtaining information through direct contact and also through secondary sources such as colleagues and customers. The improvement of knowledge about each other helped in improving predictability about each other and further helped in developing trust.

6.10.2.3 Identification based trust

As trust developed the branch manager gave limited delegation to the loan officer across some aspects of lending, depending on the urgency of the situation but

within the head office guidelines only. The delegation of authority was an important issue for the loan officer as it demonstrated branch manger's trust in him.

6.10.3 Analysis of Lending Performance of branch

Both the branch manager and the loan officer agreed that a trusting relationship between the two resulted in the improvement of the lending performance of the branch which would not have been possible if there was no trust between the two. "If trust is developed with the loan officer, all parameters of lending will improve. Overall branch performance will improve."

In spite of some limitations due to location and business conditions in the target area, trust resulted in improving the lending parameters such as number of loan accounts, rupee amount of loans disbursed, implementation of HO/RBI directives, better recovery of non performing assets and the profitability of lending business.(table 6.8).

Table 6.8: Perception of Branch manager and Loan officer of Branch H on effect of trust on lending variables (% increase)

Perception	Perception of Branch Manager	Perception of Loan Officer	Average of perceptions
Number of Loan Accounts	50	80	65
Rupee amount of loans disbursed	50	80	65
Implementation of RBI/Head Office Directives	80	80	80
Recovery of non performing loans	60	100	80
Quality of asset management	60	100	80
Risk Management	60	100	80
Increase in loan income	60	100	80
Increase in loan expenses	60	100	80
Increase in profit on loans	60	100	80

6.10.4 Summary of Analysis of Case H

This branch is located in a place which has suffered some development problems. In addition, the branch had experienced some lending problems in the past. The branch manager and loan officer realised that development of trust between them

would contribute to the improvement in lending performance of the branch. They considered trust development as important to the growth of the branch. Knowledge, benevolence and behavioural integrity were considered as significant factors that could help in the development of trust. Ethnicity was also considered important because the branch manager and the loan officer came from different ethnic backgrounds. Although both branch manager and loan officer were conscious of their respective caste backgrounds, they followed the banks policy in their working relationship which did not influence their day to day work duties. The development of trust between branch manager and loan officer was in stages. In the third stage of identification based trust the branch manager delegated part of his lending authority to loan officer. Trust between branch manager and loan officer contributed to the improvement of lending performance of the branch.

6.11 Summary of the chapter

In this chapter, each case is analysed individually. The data used in these cases was obtained from the responses made through primary interviews of branch managers and loan officers of bank branches in India. The observation pattern made in each case is analysed on three components of this study which are, the key factors of trust between branch manager and loan officer, the stages of trust development between branch managers and loan officers and the effect that trust might have on the lending performance of bank branches in India. The results of this analysis are summarised below.

The theoretical framework of trust for branch manager and loan officer relationship given in chapter 3 of this thesis suggests that the relationship between branch manager and loan officer is based on trust. The theoretical framework also describes various factors of trust between branch manager and loan officer as similarity,

knowledge, benevolence, behavioural integrity, behavioural consistency, communication and culture. Each of these factors was found to be significant in the relationship between branch manager and loan officer in all cases. There were however differences in the way in which each of these factors contributed to trust between branch manager and loan officer in each case.

Trust between branch manager and loan officer was considered significant to the development of their relationship and also for the improvement of lending performance of the branches. In case B, the branch manager had a very bad relationship with the previous loan officer of the branch. As a result the lending performance of the branch deteriorated during that period. With a change in loan officer, the branch manager was able to develop trust and this change contributed to an improvement in the lending performance of the branch. In case C, the services of the branch could not be delivered to customers properly due to industrial actions. The situation affected the lending performance of the branch and also the relationship between the branch manager and loan officer. Both branch manager and loan officer were under considerable pressure to improve the lending performance of the branch. The branch manager and loan officer realised the problem, were able to improve trust and improved the lending performance of the branch.

In case D, the branch was located in a metropolitan area. The branch had a very demanding clientele. The main clients of the branch were large corporations, educational institutes and professionals. These clients put considerable pressure on the branch manager and loan officer through their dealings. However both the branch manager and loan officer were very experienced realised that development of trust would lead to an improvement in customer dealings and improvements in lending business. In case E; however, it was not difficult for the branch manager and loan

officer to develop trust because of their association in a previous work situation. In case F, the development of trust between branch manager and loan officer was difficult because both the branch manager and loan officer were doing lot of work in addition to their normal responsibilities as branch manager and loan officer due to staff shortage. Also the loan officer of this branch was assistant branch manager of the branch. The branch manager did not have the same level of control on the loan officer as managers of other branches had on their loan officers. However, both the branch manager and the loan officer realised that if they did not develop trust then the lending performance of the branch could be affected. This realisation led to the development of trust between the two.

In case H, the branch experienced many problems in the development of lending business. The first problem was the location of the branch. The branch was located in a place which suffered development problems. Due to lack of development in the target area, branch was not able to improve its lending performance. In addition, the branch had suffered loan losses contributing to lack of development of lending business of the branch. In such a situation the branch manager and loan officer realised that development of trust between the two could contribute to the development of lending business and improvement in lending performance of the branch. They considered trust between them as important to the growth of lending business in the branch.

In each of the branches studied as cases, the factors of trust described in the theoretical framework contributed to the trust between branch manager and loan officer. Chapter 7 of this thesis gives the details of the contribution of each factor of trust to the relationship between branch manager and loan officer. Important issues in the contribution of factor of trust to the relationship between branch manager and loan officer are discussed below.

Similarity between branch manager and loan officer was a significant factor of trust. In branch E, both branch manager and loan officer had worked in a similar work situation and came from similar ethnic backgrounds which helped them in development of trust. In case F, the branch manager and loan officer came from similar backgrounds in terms of their work style and previous lending experience. The similarity contributed to the development of trust between them.

Knowledge was considered the second significant factor of trust between branch manager and loan officer. In branch A, both the loan officer and branch manager agreed that knowledge about the bank's product and services, policies and procedures and knowledge of people, place and customers in the target area of bank, important for business development and trust development. Any lack of knowledge could result in problems with the delivery of products and services. In case C, the knowledge of loan officer in regard to banks lending policies and products and analytical skill was limited. The lack of skill and knowledge was a contributing factor in lack of progress in the branch.

Benevolence was considered the third significant factor of trust between branch manager and loan officer. As part of loan officer's benevolence, branch managers wanted the loan officers to be personally loyal to them. In case C, the loyalty of loan officer was considered important by branch manager because the branch had faced industrial actions by unions in the past and industrial climate in the branch was uncertain. In case F, the loan officer considered that loyalty to organisation was more important than loyalty to branch manager because loyalty to branch manager could cause undue influence on loan officer. As a part of branch manager's benevolence, the loan officers wanted assurance of protection from branch managers in case of adverse events like loan losses. The branch manager however was of the view that any

protection could be available to the loan officer for general mistakes and within the rules and policies of the organisation. There could not be any tolerance for intentional actions, including frauds. It is evident that the benevolent actions of branch managers and loan officers in trust relationship are constrained by the rules of organisation in which they work.

Behavioural integrity is the fourth factor of trust between branch manager and loan officer. Congruence between action and words of the parties in trust, honesty and integrity were considered paramount as part of behavioural integrity. On many occasions branch managers gave oral instructions to loan officers on lending issues which were subject to confirmation. The loan officers expected that branch managers would follow their oral instructions with written confirmations and would stand by their oral instructions. If the branch managers did not confirm their oral instructions the loan officers could end up in problems. Similarly, branch managers expected loan officers to be honest in their dealings in loans.

Behavioural consistency is the fifth factor of trust between branch manager and loan officer. The ability to work under stress was considered significant by both branch manager and loan officer because branches have a diverse set of clients with diverse requirements in lending business. Sometimes clients, particularly large clients put demands on branch managers and loan officers which could cause them considerable stress and could be difficult to fulfil. The ability to deal with those clients without losing their business is important in the banking business.

Communication is the sixth factor of trust in relation between branch manager and loan officer. In all the cases, branch managers and loan officers maintained credible oral and written communication with their loan officers. However, some loan officers were of the view that branch managers may not be open to feedback. In the Indian

context, the superior officers, such as branch managers may not be responsive to feedback from subordinate officers such as loan officer. This could affect the trust relationship between branch manager and loan officer.

Culture is the seventh and most important factor of trust between branch manager and loan officer in Indian context. As part of cultural values, value of affiliation towards the superior officer was considered important in trust between branch manager and loan officer. Almost all the loan officers thought they would value their affiliation with their branch manager as it would benefit their future career in the organisation. Ethnicity of branch manager and loan officer was also considered significant in trust between them. In branch A, and branch H, both branch managers come from a community which has a quota of reservation in the government jobs whereas the loan officers were from a different community. Ethnicity of branch manager and loan officer was a contributing factor in their relationship. The issue of race/caste, minority status was not considered significant by both loan officer and branch manager in their relationship.

The trust between branch managers and loan officers develop in three stages as suggested by the theory of Lewicki and Bunker (1996) and Lewicki et al. (2006). According to the theory, in the first stage of calculus based trust, the trusting party and trusted party enter into a trust relationship because they perceive a benefit of entering into trust and also because of cost associated with not developing trust. From the responses of the branch manager and loan officer, it was observed that the branch managers and loan officer observe trust because they perceive the benefit of trust as the improvement in the lending performance of the branch and the cost of trust as deterioration in the lending performance of the branch. Since the benefits of entering

into trust is perceived to be more than cost of not entering into trust, all branch managers thought that trust was beneficial to them.

The theory also suggests that, there is a system of threat and reward that operates between trusting party and trusted party in a trust relationship where the trusting party should be able to reward the other party for observing trust and give a threat for not observing a trust. In the branch manager–loan officer relationship the threat and reward system did not operate exactly as suggested by the theory. The branch manager was not able to reward loan officer in any way for observing trust. The branch manager was not able to give a threat to loan officer for not observing trust. The reward and threats could be given to loan officer by the branch manager only in accordance with the rules of the organisation. The organisational constraints limited the context in which threat and reward system could operate.

The loan officers and branch managers entered into second stage of knowledge based trust after the first stage. This stage was characterised by knowledge development between them. Both loan officer and branch manger used direct knowledge developed through mutual interaction with each other in second and subsequent stage of identity based trust.

The third stage of identity based trust was characterised by the delegation of authority by branch manger to loan officers in all branches. When branch managers and loan officers developed knowledge about each other, they became willing to assume risk in delegation. That is when branch managers decided to delegate their authority to loan officers. The delegation was however given only for a limited lending authority. Along with that branch managers insisted that the loan officers should obtain confirmation for their actions from the branch managers on delegated authority. The

delegation was given only within the organisational rules on delegation set for each branch by the respective bank.

The trust between branch manager and loan officer contributed to the improvement of lending performance of all the bank branches studied as cases. As is evident from tables 6.1 to 6.8, the improvement in lending performance was observed in all the parameters of lending studied – number of loan accounts, rupee amount of loans disbursed, implementation of head office/ Reserve Bank of India directives, recovery of non-performing assets, quality of asset management, risk management, interest/fee income on lending business and profitability of loans. The trust between branch manager and loan officer contributed to the improvement in lending performance of all branches in spite of the fact that business conditions in all branches such as location of the branch and business mix of the branch were different.

It would not have been possible for some branches to improve lending business if there was no trust between branch manager and loan officer. In case H, for example, the branch manager was of the opinion that if trust was developed with loan officer, all parameters of lending would improve. The responses of the branch managers and loan officer suggested that trust contributed significantly to improvement of lending performance of the branches.

Chapter 7

Cross Case Analysis

7.1 Introduction

In the previous chapter, each of the cases observed in this study were analysed with respect to the theoretical pattern developed in this study. The purpose of individual case analysis was to develop a deep understanding of a particular case with respect to the theoretical pattern and the research questions studied in this thesis.

This thesis investigates the role of trust in the relationship between branch managers and loan officers of bank branches in India. Three main research questions are addressed in this thesis. The first research question is to investigate the key factors of trust identified by the theoretical framework that determine the relationship between the branch managers and loan officers of Indian bank branches. The second question of this study is to examine the stages in which trust develops between the branch manager and loans officer of Indian bank branches. The third question is to understand the effect of trust on lending performance of bank branches in India.

The research method used in this study is based on the empirical investigation of the role of trust in the relationship between branch managers and loan officers of bank branches in India. The research method is described in detail in chapter 4 of this thesis. The research method involves using a pattern matching technique to compare the theoretical pattern of trust described in the theoretical framework of trust as explained in Chapter 3 of this thesis with the empirical observation of trust on three dimensions and key research questions described above – the key factors of trust that determine the relationship between branch managers and loan officers, various stages of trust development between branch managers and loan officers and third, the effect of trust

between branch manager and loan officers of Indian bank branches on the lending performance of the branches.

In the previous chapter, all the eight cases forming part of this study were analysed individually to develop an understanding of individual cases with respect to the research questions developed from the theoretical pattern on key factors of trust between branch manager and loan officer, on stages of trust development and on the effect that trust between branch manager and loan officer might have on lending performance of bank branches in India. This understanding of research questions is developed by comparing the theoretical pattern with the observed pattern of responses obtained from branch manager and loan officer. Through the analysis of interview questions, a matching is established between variables represented by the interview questions and the theoretical pattern. This matching helps in analysing how different branch managers and loan officers use a particular aspect of trust and how that use conveys meaning in relation to the theoretical framework. The analysis and comparison of individual cases with the theoretical framework helped in resolving the complexities of each case and in observing the pattern and insights that case data offers.

In this chapter, analysis is done across all cases studied in this thesis. According to Miles and Huberman (1994, p.172), the purpose of studying multiple cases is to increase generalizability of a research study by identifying common themes across cases. The events and processes described in one case setting are specific to that particular case but if those events and processes are repeated in other cases, this would help in increasing the generalizability of the research done. The study of factors of trust, stages of trust development and the effect of trust on lending performance of the branches across cases helps in understanding these variables in the particular local condition of a bank branch. (Ayres et al, 2003)

The cross case analysis in this chapter is carried out through a software based variable oriented analysis. The group of observed cases are compared based on common attributes of factors of trust, stages of trust development and lending indicators studied through common codes in NVivo. These codes are developed through theoretical framework used in this study. Specific factors such as factors of trust are compared across different cases to identify the common patterns and also for exceptions which do not follow the common pattern. The purpose is to understand the common factor across different cases. If there are any exceptions then the reason behind those exceptions can also be explored to develop an understanding of a particular deviation from any observed common pattern. The instances of individual cases have been examined in detail and contradictions investigated. Common themes are identified across cases. This will help in comparing the empirical observations relative to theoretical pattern across different variables.

In the following part of the chapter, analysis of the cases is described relative to each of the research questions and their parts. First, the factors of trust observed across cases are examined relative to the theoretical pattern. Then the stages of trust developments across all branches are analysed relative to the theoretical pattern. Finally, the relation to trust of the lending performance of the branches is analysed. This analysis helps in identifying the common themes along all eight cases studied and offers valuable insight about the role that trust plays in the relationship between branch managers and loan officers of bank branches in the banking system of India.

7.2 Trust Factors

In order to develop trust, the branch manager and loan officer need to have certain attributes as described by factors of trust development.(Mayer, Davis and Schoorman, 1995). The literature on factors of trust was reviewed in chapter 3. Based on the

literature review in chapter 3, similarity, ability or knowledge, benevolence, behavioural integrity, behavioural consistency, communication and culture were identified as the potential factors of trust between loan officers and branch managers of bank branches in India. The responses of branch managers and loan officers on factors of trust are now analysed below

7.2.1 Similarity

In chapter 3 of this thesis, similarity between the branch manager and the loan officer was first factor identified as contributing to trust between branch manager and the loan officer. The literature suggests that individuals are more willing to trust other individuals who exhibit characteristics that are similar to their own (Creed and Miles, 1996; McAllister, 1995; Valez 2000). A branch manager of a bank will be more willing to trust a loan officer whom he or she perceives to have similar characteristics as their own. Similarity in earlier stages of their relationship is considered essential in creating a trusting relationship between branch manager and loan officer. Similarity helps in identifying common characteristics between two individuals and contributes to the initial development of trust within the relationship.

Similarity between branch manager and loan officer can exist in many ways. A branch manager and a loan officer could be similar to each other in their work styles, in personal qualities of attitude or in dealing with customers. A branch manager and a loan officer could be similar to each other in having previous experience in similar work situations. For example, a branch manager and a loan officer could have previously worked in a lending environment creating a similarity between the two. Similarity helps in identifying common problems and issues in relationships easily as a reference to a previous situation can be made creating a comparison and relationship.

In the theoretical pattern described in chapter 3 of this thesis, three important themes of similarity between branch manager and loan officer have been identified as – similarity in work style, similarity in personal qualities such as attitude and approach towards customers and similarity in previous experience such as a lending situation. Table 7.1 illustrates the significance of various components of similarity.

Table 7.1 Significance of components of key factors of trust - Similarity

	Significance in Branch								
Components of Similarity	A	B	C	D	E	F	G	H	Total
Similarity in work style	S	S	NS	NS	NS	S	NS	NS	NS
Similarity in personal qualities	S	S	S	NS	S	S	S	S	S
Similarity in previous experience	NS	NS	S	S	S	S	NS	S	S

S – Significant; NS- Not significant.

7.2.1.1 Similarity in work style

The observed pattern of similarity was recorded on the basis of theoretical framework of trust. From the discussion with respondents, it is observed that the approach to similarity as a factor of trust between branch manager and loan officer is not identical in all branches. Some branch managers (3 out of 8) regard similarity in work style as important to contributing towards trust. Others thought that different work styles were better. Those who regarded that similarity in work styles was important thought so because similarity created a conducive environment for the branch manager and loan officer to work together. Branch manager and loan officer could relate their own work styles with the other and so anticipate about the actions of the other. Those who regarded differences in work styles to be better than similarity in work style thought so because they wanted to have a different perspective of approaching lending perspective to their own. The work style of the other managers or loan officers would

thus complement their own. For example, managers who were quick in decision may prefer a loan officer who would be analytical in his or her approach so that relevant details are not missed in the lending analysis.

7.2.1.2 Similarity in Personal Qualities

Similarity in the personal qualities of attitude and behaviour towards customers were considered significant by both branch managers (4 out of 8) and loan officers (7 out of 8). As banking business depends on the relationships with the customers, differences in dealing with customers and bad behaviour could result in problems for both branch manager and loan officer. Commenting on personal qualities of a branch manager, one loan officer felt that, “branch managers should have better IQ than loan officer.” In the opinion of that particular loan officer, many branch managers did not have sufficient intelligence to deal fairly with portfolio. Such is the state of some of the branches of nationalised banks in India. In this study however only one loan officer made this observation about his branch manager. Loan officers of other branches did not regard the IQ of their branch manager to be worse than them.

7.2.1.3 Similarity in previous experience

Regarding similarity in previous experience in a lending environment, the opinion was divided. Some branch managers (5 out of 8) and loan officers (5 out of 8) thought that previous experience in lending situations was preferable in their current lending responsibility, but it may not always be available. Previous experience in a lending situation created a better understanding of current lending environment. Some thought that experience can be acquired on the job but attitudes are more important as these could not be acquired on the job. This applied particularly to branch managers who were more emphatic about the attitude of loan officers towards their superiors and

customers. However, in nationalised banks, attitudes could be sometimes problematic as people could not be hired or fired easily.

Although similarity was considered a significant factor of trust between branch manager and loan officers, some branch managers expressed concern that they could not always find a person they were looking for to work as a loan officer. They had to select a loan officer from the group of officers available to them, similarity or no similarity. In that situation, managers would have to make compromises. “I am in charge of the branch, therefore I have to make compromises. Job is on the rotation basis, therefore no choice.” lamented one branch manager. Most branches had a policy of job rotation, where each officer would be given opportunity of working as a loan officer for a specified period. This rotation policy limited the choice of the branch manager to have a person of their choice as loan officer, thus limiting the development of trust between the loan officer and the branch manager.

Loan officers (5 out of 8) on their part wanted branch managers to have considerable previous experience in lending prior to their current assignment as branch manager. Particularly when a loan officer had not worked in a lending situation prior to the current assignment, they would prefer branch managers to compensate for their lack of experience. Loan officers in such a situation would be considerably dependent on the branch manager for their input into lending management of the branch.

7.2.2. Knowledge

The second important factor of trust identified by the theoretical framework adopted in this study is referred to as ability or competence or knowledge. Since bank lending is a risky business, the loan officer and branch manager have to assume risk in lending. The assumption of risk requires an ability to handle risk, which comes from knowledge about the risk and potential consequences. Therefore, skills related to the job

performance of both the branch manager and the loan officer are an essential part of the knowledge and ability to handle the risk. The ability or knowledge in this regard would influence how well the loan function is performed. Table 7.2 illustrates the significance of various components of knowledge.

Table 7.2 Significance of components of key factors trust - Knowledge

Components of Knowledge	Significance in Branch								
	A	B	C	D	E	F	G	H	Total
Knowledge about policies and products	NS	S	S	S	S	S	S	S	S
Knowledge about systems and procedures	S	S	S	S	S	S	S	S	S
Knowledge about people, place and customers	NS	S	S	S	S	S	S	S	S

S – Significant; NS- Not significant.

From the responses obtained in the cases studied, a loan officer would need knowledge about various policies and procedure of the bank, analytical skills such as balance sheet analysis, cash flow analysis skills, legal knowledge, knowledge about people, place and customers. These skills will help the loan officer in discharging his or her job diligently. In the case of branch managers, the ability or knowledge would include lending skills, ability to take decisions, resolve conflicts and handle unforeseen circumstances.

From the respondents' comments, knowledge in work and as a factor of trust was observed to be significant. In every branch observed as a case, knowledge about banks policies and products, bank's systems and procedures and knowledge about people, place and customers were considered significant by the respondents for business decision making and for development of trust between branch manager and loan officer. Although differences were observed on how this knowledge was determined and used.

7.2.2.1 Knowledge about bank's policies and products

Knowledge about bank's policy and products was considered significant by most branch managers and loan officers although two branch managers thought that knowledge could be developed working on the job. Knowledge about bank's policy was considered essential by respondents because knowledge about bank's policy help in marketing of lending and deposit products, help in loan recovery from the customers, completion of documents, setting terms of lending contracts and negotiation of loan recovery covenants. Knowledge about product was also considered essential because banks have to offer their products in competition to other banks and financial institutions. Knowledge about the strengths and weaknesses of products help in marketing the products and set the recovery of lending products.

In addition to knowledge about banks policy and products, analytical skills were considered essential, particularly for the loan officers. The loan officer is required to analyse the financial performance of borrowers through balance sheet analysis, cash flow analysis etc. By being proficient in these skills, the loan officer can understand the customer's business and set the bank's relationship with the customer accordingly. In this way the loan officer can help the branch manager in negotiating a better deal with the customer.

7.2.2.2 Knowledge about bank's systems and procedures

The second significant aspect of knowledge mentioned by the respondents was knowledge about systems and procedures of the bank. The bank is a large organisation where people from different parts interact with each other through systems and procedures put in place by the bank's management. If these procedures are not followed properly then there can be friction between different people in the bank and parts of the organisation. Non observance of systems and procedures can also damage bank's relationship with the customers. Proper adherence to procedures can lead to reduction in

cost of operation as the operations can be discharged efficiently through the set of procedures laid down by the bank. If both branch manager and loan officer are familiar with the procedures and systems of the bank, loan management is carried out smoothly creating efficiency for the bank. This knowledge also helps in creating trust between the two as efficiency is beneficial to both in delivery of products and services.

7.2.2.3 Knowledge about people, place and customers

The third component of knowledge from the analysis of responses was observed to be knowledge about people, place and customers. Respondents' comments indicated that that knowledge about people in the area played a very significant role in the business development. If a branch manager and loan officer have thorough knowledge about people, particularly their customer base, then banking products can be tailored to suit the needs of local customers. Knowledge about customers can also help in developing appropriate relationship with them which contribute to risk management and business development of the branch.

In addition to customers, the branch manager and the loan officer have to deal with a number of other people in their target area such as their other colleagues in the bank, staff of other banks, government officials, local officials, suppliers and regulators. Dealing with all these stakeholders can be done effectively if the branch manager and the loan officer have sound knowledge about the potential behaviour of stakeholders and the implication of this behaviour on the branch business. Knowledge about the branch's environment is observed to be important because this knowledge helps in product development and business development according to local needs. Branch managers and loan officers were keen to have knowledge about the business environment, customers and culture of the branch without which they expressed their inability to determine strategies to deal with local customers.

In one of the branches, the manager adopted a variation of the standard procedure set down by the head office of the bank. In this branch, the branch manager was the first point of contact between the loan customer and the bank. The branch manager received the loan application and selected the borrower. The loan application was accepted only after a preliminary interview of the borrower by the branch manager. After accepting the application, the branch manager referred the application to the loan officer. The loan officer assessed the loan application based on the procedures and policy of the bank and made a recommendation to the branch manager on acceptance or rejection of the loan application. The final decision on the loan application was then taken by the branch manager on the loan application.

The procedure adopted at this branch illustrate that some bank branches may evolve their own procedures within head office rules to suit their local requirement and may follow a modified procedure. Although the loan officer in this branch grudgingly accepted the procedure set down by the manager, this deviation in procedure did not contribute to reduction in trust between branch manager and the loan officer as both of them understood that the modified procedure helped in reducing the lending risk. A procedure is considered effective if it contributes to risk reduction or increases the operational efficiency. In this sense, customer's needs and requirements are considered important in evolving any procedure. In another branch (case G), the same procedure was considered unacceptable as customers in the area were different and demanded quick decision on their applications.

7.2.3 Benevolence

The third factor of trust between branch manager and loan officer, identified in the theory was benevolence. Benevolence is defined as “the extent to which a trusted is believed to want to do good to the trusting party” (Valez, 2000). Benevolence is the

additional good that the trusted person is inclined to do towards the trusting party. In the context of branch manager loan officer relationship, a branch manager is likely to be considered benevolent when they do not exploit their subordinates to further their own interests, protect the loan officer from any mistakes or remains considerate and sensitive to the needs of the loan officer.

In this context, the definition of benevolence given by Valez (2000) is appropriate and has been used here. The branch managers and loan officers are considered to be benevolent when they are sensitive to the need of each other, remain considerate and branch manager protects loan officer from mistakes committed on the job or from any loan losses that may occur during lending. In addition, the branch manager should not exploit loan officer to further their own interests.

Table 7.3 Significance of components of key factors trust - Benevolence

	Significance in Branch								
Components of Benevolence	A	B	C	D	E	F	G	H	Total
Being Considerate	S	NS	S	S	S	S	S	S	S
Sensitivity to the needs of others	S	S	S	NS	S	S	S	S	S
Protection to Loan Officer	S	S	S	S	S	S	S	S	S
Not exploiting Loan Officer	NS	S	S	S	S	S	S	S	S
Loyalty to branch manager	S	S	NS	S	S	S	S	S	S
Recommendation to others	S	S	S	S	S	S	S	S	S
Independence	NS	NS	NS	S	NS	NS	NS	S	NS

S – Significant; NS- Not significant.

This exploitation can occur if the branch manager as a supervisor seeks to pressures or influences the loan officer to make a particular recommendation on the

lending proposals convenient to branch manager. Table 7.3 illustrates the significance of various components of benevolence.

7.2.3.1 Sensitivity to the needs of others

The respondents' comments were recorded on branch managers' perception and loan officers' perception of the significance of being benevolent in a trust situation. All the branch managers observed that remaining sensitive to the needs of loan officers was important to them in the development of trust and vice versa. Since branch managers and loan officers have different needs in a lending situation, it was important that each of them considered those needs. It was particularly important for the loan officer to consider the needs of the branch manager in the case of lending situations which involved urgency of time or when the task was considered particularly difficult. One of the loan officers however thought that it was not important for the branch manager to remain sensitive to the loan officer only but the branch manager should remain sensitive to all the staff members in the branch.

7.2.3.2 Being considerate

All branch managers further emphasised that being considerate to loan officers was an important factor in the development of trust with the loan officer. But branch managers expressed their inability to give any consideration to loan officers outside the systems and procedures of the bank. "Any consideration can be given subject to the systems and procedures of the bank and procedures cannot be overlooked." commented one branch manager (case G). While all loan officers except one thought that branch managers should give them consideration whenever required in their working relationship, one loan officer was of the opinion that consideration was not necessary. However, the loan officers did not agree with branch managers' perception that consideration could be given only within systems and procedures of the bank. The

banks systems allowed enough leverage to branch managers to give considerations in work situations if they wished to.

7.2.3.3 Protection in case of eventuality

From the responses obtained, the next sub factor of benevolence which was considered important in the relationship between branch manager and loan officer was protection given to loan officer in case of any eventuality. Banking is a risky business and sometimes mistakes do happen during the course of work. A loan eventuality may happen when a lending mistake may lead to loan loss or may affect its recovery. Branch managers can choose to provide protection to loan officers in case of a mistake or choose to take action against loan officer according to institutional rules. However any action may lead to distrust of the branch manager by the loan officer.

Most of the branch managers thought that providing protection to loan officers in case of any adverse event of mistakes or loan losses goes a long way in the development of trust relationship with the loan officer. Although provision of protection to the loan officer was considered important by branch managers it was emphasised by branch managers that protection could be made available to the loan officer when the errors made by the loan officer were without negligence and were not caused deliberately. The protection was available for correcting the mistakes but that there would be no tolerance by the branch managers for the deliberate actions of the loan officer which could lead to fraud. There would be no tolerance for fraudulent actions. For providing protection to loan officers, the intention with which an error was committed was considered important by branch managers. The loan officers (8 out of 8) were of the opinion that branch managers should provide them with unconditional protection in case of any adverse events of mistakes or loan losses.

7.2.3.4 Not exploiting the loan officer

The next theme that emerged from the responses was that the loan officers insisted that branch managers should not exploit them. Branch managers as superiors were in a position to exploit loan officers as subordinates when they pressurise loan officers to make a convenient recommendations on the loan application. The loan officer may be forced to make a recommendation with which he or she may not agree. This happens when a customer puts pressure on the branch manager and the loan officer with the intention of overlooking bank's requirements in regard to assessment, documentation or follow up action on the loan. All the branch managers however denied that they ever indulged in any kind of exploitation of loan officer.

In addition to the four themes – of being sensitive to the needs of trusted party, being considerate, providing protection to loan officer and not exploiting loan officer that emerged from the empirical observation, some additional themes also emerged from respondents' comments. Two important issues that were considered important for trust between branch manager and loan officer in this regard were loyalty of the loan officer towards branch manager and making recommendation to higher authorities for promotion/reward to loan officer.

7.2.3.5 Loyalty to branch manager

Loyalty was considered to play a significant role in the development of trust between branch manager and loan officer by all the branch managers. All branch managers expected and demanded loyalty from the loan officers as subordinates. Some loan officers were however not willing to give complete loyalty to branch managers as supervisors. The loan officers thought that there should be differentiation between loyalty to the institution and personal loyalty to the branch manager. According to the loan officers they should be loyal to their institution as compared to being personally loyal to the branch manager as they worked for the institution. Personal loyalty to the

branch manager could lead to overlooking institutional interests and this could be detrimental to the interests of the loan officer in the long run because they worked only for a limited time with a particular branch manager.

7.2.3.6. Recommendation to higher authorities

The other issue of making recommendations to higher authorities for promotion or reward to loan officer was considered important by loan officers (7 out of 8) because the loan officers thought that this kind of recommendation provided motivation to loan officers. There could be frustration if adequate recognition was not available. Branch managers on the other hand thought that any recommendation for promotion or reward to loan officers could be provided by them only within institutional procedures of performance appraisal. Any recommendation to higher authorities outside that procedure could be meaningless and would be ignored by the higher management.

7.2.3.7 Independence

A minor theme which emerged from responses was the independence of loan officer as subordinate from the branch manager. However except for two, none of the branch managers or loan officers agreed that independence of the loan officer was an important issue for trust as loan officers were subordinates and could not act independently of the branch managers as superior officer.

7.2.4 Behavioural Integrity

The fourth factor of trust between branch manager and loan officer was identified in the theoretical framework as behavioural integrity. Integrity has been defined as “the extent to which a manager acts consistently with what he says and adheres to the agreements”. Mayer et al. (1995) have suggested that issues such as consistency of past actions, credible communication about trustees from other parties,

belief that trusted person has a strong sense of justice and the extent to which parties are congruent with his or her words, all form part of behavioural integrity.

Shaw (1997) has concluded that a person gains trust by explaining actions and decisions honestly and acting with integrity. Wintoro (2000) has suggested that integrity of trusted investment manager is important in hiring them to manage the investment portfolio as the person without integrity may not be able to accomplish the mandate given to them.

The importance of behavioural integrity in the context of branch manager and loan officer relationship can be understood by the way they honour their deals with customers and observe integrity in their relationship. If the manager says something on a loan application at one time and backtracks on his or her decision at another time, his integrity becomes questionable. If the branch manager changes his or her decisions on a loan application due to excessive pressures, knowing well that a particular loan could be risky, then his or her integrity becomes questionable.

A loan officer regularly observes the actions and decisions of branch manager on loan requests and if he or she observes that branch manager has different approaches or interpretation of rules for different people at different times then the loan officer may not be inclined to trust the branch manager. Inconsistent action of the branch manager may diminish the trust of loan officer in the branch manager and vice versa. Observation of consistent actions of each other may result in the development of trust. Table 7.4 illustrates the significance of various components of behavioural integrity.

**Table 7.4 Significance of components of key factors of trust –
Behavioural integrity**

	Significance in Branch								
Components of Behavioural Integrity	A	B	C	D	E	F	G	H	Total
Consistent past actions	S	S	S	NS	NS	S	S	S	S
Congruence between action and words	S	S	S	S	S	S	S	S	S
Honesty and Integrity	S	S	S	S	S	S	S	S	S

S – Significant; NS- Not significant.

In regard to behavioural integrity as a factor of trust between branch manager and loan officers, responses were obtained on three aspects of behavioural integrity – consistent past actions or acting consistently, congruence between actions and words of branch managers and loan officers and honesty and integrity of both branch managers and loan officers, particularly the branch managers as the supervisors.

7.2.4.1 Consistent past actions

In all cases analysed, the branch managers and loan officers observed the actions of each other consistently over a period of time. These actions were observed even before starting the relationship in some cases. For example, in case E, the branch manager had worked with his loan officer in a previous branch in a different capacity and the actions of loan officer seemed consistent to him. So when the loan officer was posted to his branch, he immediately asked him to work as a loan officer. Although not all branch managers are successful in getting a loan officer of their choice, sometimes past association can contribute to the future trust relationship.

In all the branches studied as cases, the loan officers had the opportunity to observe the branch manager while the loan officers were working in other departments as officer. Dependent upon the branch manager's consistent actions and experience of working with him, loan officers accepted their position of the loan officer. Similarly,

none of the branch managers except one allowed a new officer of the branch to manage the branch's loan portfolio as it required considerable trust. When an initial trust was developed with the loan officer, they assigned them to the loan department. This strategy was considered necessary because loans department is usually more risky and require capabilities different from other departments.

7.2.4.2 Congruence between actions and words

From the responses, it was observed that loan officers gave considerable importance to congruence between actions and words of a branch manager. Many times branch managers gave oral instructions to loan officers on lending issues and proposals. If these oral instructions are later back tracked by the branch manager, then the loan officer can face considerable problems if he or she relies on oral instructions of the branch manager and acts on those instructions. The bank may also lose money in this regard. A loan officer would not trust a branch manager who would go back on his orders. Congruence between actions and words particularly of the branch manager was seen as important to building and contributing to a trusting relationship between branch manager and loan officer.

7.2.4.3 Honesty and Integrity

Honesty and integrity is another issue which was considered significant by all branch managers and loan officers in developing and sustaining trust between them. A dishonest loan officer can change their recommendations on loan issues and can cause considerable loss to the bank and cause considerable problems to the branch manager if the branch manager relies on that recommendation. Similarly a dishonest branch manager can attribute all their decisions about "dirty" loans to the loan officer thus creating substantial problems for the loan officer. Branch managers and loan officers in

a dishonest environment will always remain suspicious of each other. Trust will hardly evolve in such a situation.

From the responses of all branch managers and loan officers interviewed, honesty and integrity of the loan officer and branch manager was observed to be an important issue for building trust. Branch managers and loan officers work within an institutional environment of a bank. Each bank has policies and procedures laid down for any dishonest misconduct by any of its employees. Any employee facing a misconduct charge may not be able to work in a sensitive position of a loan officer or branch manager.

7.2.5 .Behavioural Consistency

The next factor of trust in the theoretical framework of trust development between branch manager and loan officer is behavioural consistency. Valez (2000) defines behavioural consistency as the reliability or predictability of another's behaviour. Shapiro (1992) has related behavioural consistency to knowledge based trust when a subordinate or superior have developed sufficient knowledge about each other after remaining in the relationship for some time. During that time they develop knowledge about each others' behaviour. This knowledge is then used to predict the behaviour of the trusted party in a specific situation. From the knowledge developed about each other, both parties look for common pattern and use the information to make prediction about the future behaviour. This prediction of behaviour is essential because the trusting party will estimate the amount of risk they expect to face from the behaviour of the trusted party (Butler, 1991; Gabbaro, 1978).

From the responses analysed, it is observed that in a branch manager loan officer relationship behavioural consistency has two elements. The first one is ability to work under stress and the second is the reliability and predictability of the other party in trust

relationship. The ability to work under stress is important for both the branch manager and loan officer. Banking is a stressful business and lending is also a stressful part of banking. In India, a number of demands are made on branch managers and loan officers. Branch managers and loan officers face many pressures from government officials, politicians, higher management and society to influence their lending decisions. These pressures are continual and cause stress on both branch manager and loan officer.

Where branch managers and loan officers have worked with each other for some time, they develop knowledge about each other. For example, from the branch manager's previous decisions, a loan officer should be able to guess a branch manager's response to a customer's request for temporary overdraft, based on customer's history, previous dealings with the branch and particular risk profile of the customer. From the accumulated knowledge about the branch manager's behaviour, a loan officer can anticipate the chances of a particular loan request being acceptable to the branch manager. If the loan officer correctly anticipates the likely decision of the branch manager to the loan request, the loan officer can deal with the customer's request accordingly by stipulating conditions or covenants on the loan proposal. The loan officer in such a situation can make their assessment more rigorous and help the branch manager in arriving at a proper decision quickly. This knowledge is developed and anticipation made by accumulation of previous knowledge about loan applications decided by the branch manager. If a loan officer is not in agreement with branch manager's likely decision, he or she can put forward a recommendation on the loan application that will help reduce the risk for the bank.

Behavioural consistency through ability to work under stress and reliability/predictability in behaviour of loan officer and branch manager was

considered a significant factor of trust between branch manager and loan officer. Table 7.5 illustrates the significance of various components of behavioural consistency.

Table 7.5: Significance of components of key factors trust – Behavioural Consistency

	Significance in Branch								
Components of Behavioural Consistency	A	B	C	D	E	F	G	H	Total
Ability to work under stress	S	NS	S	S	S	S	S	S	S
Reliability and predictability	S	S	S	S	S	S	S	S	S

S – Significant; NS- Not significant.

4.2.5.1 Ability to work under stress

It was observed that all branch managers and loan officers supported the ability to work under stress in each other as significant factor that helped in the development of trust. In branches which had a large customer base and which had several competing demands for time of loan officer and branch manager, it was considered essential that branch manager in particular should be able to deal with stress effectively. For a loan officer, stress usually arose when there were deadlines to be met especially during the end of calendar quarters.

7.2.5.2 Reliability and Predictability

In addition, the branch manager and loan officer expected the other party to be reliable and predictable. Branch managers wanted the loan officers to be reliable in a way that the loan officer could complete the specific tasks within the time limit set and according to the requirements of the branch manager. If the loan officer's behaviour was unreliable, branch manager would not be able to keep their commitment to higher authorities and customers and could loose business or reputation. The loan officers wanted the branch managers to be predictable through consistency in decision making. If the branch manager was inconsistent in decision making and took different decisions

at different times on similar lending proposal then the loan officer would not be able to anticipate the decision of the branch manager. This lack of consistency on the part of branch manager could create considerable risks for the branch as a whole as risky business would be accepted and less risky business lost to competitors. A loan officer would not trust a branch manager who would create such a high level of risk.

7.2.6 Communication

Clear communication between the trusting party and trusted party is essential for the development and maintenance of trust. Calderon (2002) considers that when supervisors provide accurate information to employees, explain their decisions clearly to them and are open to feedback from the employees, then employees are more likely to trust their supervisors.

Clear communication between branch manager and loan officer is important to trust because branch manager and loan officer have to exchange considerable information about the dealing with clients, loan assessment and monitoring of loans etc. Branch managers have to continually instruct loan officers about any actions that they would want to be taken in regard to a customer's account or head office enquiry. The loan officer also needs to continually provide information to the branch manager on progress or lack of it on credit accounts. If there is a distortion in communication between branch manager and loan officer, this distortion could lead to an increase in the risk on loans and possible losses to the bank. Table 7.6 illustrates the significance of various components of communication.

7.2.6.1. Credible Communication

Branch managers and loan officers in this study were asked about the need for accurate communication between each other. All branch managers and loan officers agreed that credible communication between them was important for the maintenance of

Table 7.6 Significance of components of key factors trust - Communication

Components of Communication	Significance in Branch								
	A	B	C	D	E	F	G	H	Total
Credible communication	S	S	S	S	S	S	S	S	S
Reliability and predictability	S	S	S	S	S	S	S	S	S
Local dialect	S	NS	NS	NS	S	S	S	S	S

S – Significant; NS- Not significant.

trust. Accurate communication involved face to face discussion between branch manager and loan officer on a regular basis about the loan strategy and policies in force, about the developments in customer's accounts, about responses to queries raised by head office and other institutions on loan portfolio of the branch and about the marketing of lending services in branch's target area.

7.2.6.2 Feedback

The second factor on communication that emerged from discussion with respondents was on the feedback provided to branch managers by the loan officers. Feedback is important in the Indian context because many supervisors in India usually do not positively respond to the feedback provided by the subordinates. All the branch managers wanted the loan officers to be responsive to their suggestions and feedback on the lending recommendations and performance or tasks provided by the branch managers to loan officers. Similarly, all loan officers wanted the branch managers to take into consideration any feedback provided by loan officers to branch managers on lending decisions. All the loan officers complained that it will be more effective if the branch managers take into account their feedback and act on the feedback provided. The majority of loan officers wanted the branch managers to be more open to feedback than

they were and considered the response of the branch manager in this regard as important in trust building and maintenance.

7.2.6.3. Local dialect

One of the important issues that emerged from the responses to the questions on communication was the knowledge of local dialect by the branch manager and loan officer. Many branches in India are located in regional areas where the use of local dialect is important in communication with customers. The branch managers and loan officers are expected to have a sound knowledge of local dialect in order to gain business and improve customer relations. Such familiarity assists with developing good relation with customers, which in turn, helps in developing branch business and improves trust building between branch manager and loan officer.

7.2.7 Culture

The last factor of trust between branch manager and loan officer considered in this study is culture. Given the history, geography and social structure of India, culture plays a significant role in the business practice of organisations. According to Taube (2004), culture is an essential part of social networks in India and economic relationships should be analysed using cultural factors as well in addition to economic and geographical factors. Taube(2004), further states that values, beliefs, norms and traditions are rarely observable. Actual social practices are influenced through norms and values. In the Indian context it is essential to get a grasp of national cultures and subcultures and Indian businesses need to consider diversity in religion, caste, language as necessary part of business environment.(Taube, 2004)

Taube (2004) has identified caste and ethnicity as parts of Indian culture. Siehl and Singh (2004) regard language and religion as essential part of Indian culture. Falkenberg and Glamheden (2004) regard nurturance and higher degree of personal

involvement with subordinates as Indian values. Rishi (2002) found that value of affiliation, personal concern and nurturance can create climate of trust and understanding between people in India.

For the purpose of this study, the trust between branch manager and loan officer can be understood by considering the following Indian cultural values – value of affiliation, personal and social beliefs, nurturance, personal involvement, race/caste, religion, ethnicity and minority status of individuals as part of Indian cultural values that may influence the trust between branch manager and loan officer in a branch environment. Table 7.7 illustrates the significance of various cultural factors in the trust between branch manager and loan officer.

Table 7.7 Significance of components of key factors of trust - Culture

Components of Culture	Significance in Branch								
	A	B	C	D	E	F	G	H	Total
Value of affiliation	S	NS	S	S	S	S	S	S	S
Personal beliefs	NS	NS	S	S	S	S	S	NS	S
Social beliefs	S	NS	NS	NS	NS	S	S	NS	NS
Nurturance	S	S	S	NS	S	S	S	S	S
Personal involvement	S	S	S	NS	S	S	S	S	S
Race/caste	S	NS	NS	NS	NS	NS	NS	NS	NS
Ethnicity	S	S	S	NS	NS	NS	S	S	S
Minority Status	NS	NS	NS	NS	NS	NS	NS	NS	NS
Religion	NS	S	NS	NS	NS	NS	NS	NS	NS

S – Significant; NS- Not significant.

7.2.7.1 Value of Affiliation

The first cultural factor is the value of affiliation given by Rishi (2002). It is important because Indian subordinates look towards their supervisor as a guide and wish to be known by their affiliation or association with the supervisor. The supervisors on their part expect subordinates to identify themselves completely with their supervisor's actions. From the responses, it was observed that all the branch managers expected their subordinate loan officers to identify themselves completely with the actions of branch managers. The affiliation of loan officer to branch managers was important to loan officers. Six out of eight loan officers felt that value of affiliation with the branch manager was important to them. The two loan officers who did not consider the value of affiliation to be important were those loan officers who were very close in hierarchy to their branch manager. They did not need any affiliation with the branch manager.

7.2.7.2 Nurturance

The second important cultural factor in the Indian context is nurturance. Supervisors in India generally have a nurturing attitude towards their subordinates and consider it part of their job to provide necessary support to subordinates in their growth and performance. Subordinates on their parts expect supervisors to provide them with a nurturing attitude so that they can progress in hierarchy. The interview responses indicated that all branch managers regarded nurturing their subordinate loan officer as an important for branch managers and for trust development. Only one loan officer out of eight did not regard nurturance as playing a significant role in relationship with the branch manager. The loan officers (7 out of 8) however complained that although nurturance by branch managers was an important aspect of trust development, branch managers were not nurturing loan officers as expected. According to these loan officers,

it will be beneficial to loan officers if branch managers had more nurturing attitude than what they currently had.

7.2.7.3 Personal and Social beliefs

The third cultural factor identified in the literature was personal and social beliefs. India is a vast country with people from many religions, races, geographical regions, tribes and languages. People in different parts of India have different belief system developed through local practice and customs. According to the manager of branch in case G, “each person has certain personal and social beliefs which influence their actions.” From the responses it was observed that seven out of eight branch managers thought that personal and social beliefs were not important in developing trust with loan officers, whereas local tradition were important. Since branch managers were operating in a business area with particular local traditions, they regarded awareness of the local traditions as important to the development of trust.

One manager (case G) who thought beliefs were important commented that ‘behaviour and attitudes come from beliefs. Beliefs are important and related to actions.’ Only three out of eight loan officers thought that personal and social beliefs were important in trust development whereas the other five loan officers did not regard beliefs as important for trust although they too felt that awareness of local traditions was important in the development of trust.

It is likely that the branch managers and loan officers who did not regard personal and social beliefs as important for trust development thought so because they were working for a government public sector bank. Public sector banks have specific written policies on dealing with people and belief systems are not influencing factors in these policies. In such a situation organisational culture becomes more important than personal beliefs. Yet all branch managers and loan officers considered awareness of

local tradition as important because local customers observe those traditions and are sensitive to these traditions.

7.2.7.4 Personal Involvement

The next cultural factor identified in the literature is personal involvement. In the Indian context, the issue of personal involvement in supervisor subordinate relationship is very different from the objectivity and personal detachment observed in the western business models (Rishi, 2002). A personal relationship between supervisor and subordinate and social interaction outside workplace between them are considered with favour in Indian business situation.

All eight branch managers regarded personal involvement with their subordinate loan officers as important to the relationship. Only two out of eight loan officers did not regard personal involvement as important whereas six loan officers regarded the personal involvement with the branch manager as contributing to trust. Of the two loan officers who did not regard personal involvement with branch manager as important, one had not developed a secure trusting relationship with the branch manager and the other one was a woman who, considering the Indian social situation in India would prefer not to have any personal relationship with the branch manager outside the work place.

7.2.7.5 Race/Caste, religion and ethnicity

The next cultural factor in the relationship between the branch manager and loan officer is the issue of race/caste, religion, ethnicity and minority status. India is a country where caste and ethnicity are regarded as part of culture. India has many religions. Hinduism is the religion of the majority. Muslims, Christians, Buddhists, Sikhs and Zorastrians are part of minority groups. In government jobs, reservations for recruitment are based on caste considerations and also on minority status. There are

specific quotas in government jobs for scheduled castes and scheduled tribes, other backward castes and minority groups. In addition to quotas in initial recruitment, these quotas for reservations to castes and religions are applicable for promotions as well in some organisations. Therefore any relationship in Indian government banks will be based on the issue of race/caste, religion, minority status and ethnicity of branch managers and loan officers.

It was observed in all cases studied that the issue of race/caste was not considered important by the branch manager and only one loan officer considered the issue of race/caste to be important in the development of trust. In this branch, the loan officer came from a caste which did not have quota in government jobs, whereas the branch manager came from a caste which had a quota in government jobs.

Religion was not considered important by either branch manager or loan officer in any of the eight branches. All the branch managers and loan officers were Hindus and religion was not an important issue from them because there were no differences of religions. The minority status of individuals was not considered important by either branch managers or loan officers in any of the eight cases studied.

Ethnicity was considered important by four out of eight branch managers and four out of eight loan officers as contributing to trust development. According to one branch manager, "better trust with same ethnicity can be developed. If branch manager is from north and loan officer is from south, trust may evolve. If both branch manager and loan officer have same ethnic background it contributes to better trust." However, one loan officer (case F) expressed having concern about same ethnicity of the branch manager and loan officer. "Outside people will rely more on loan officer and consequently develop trust. Local people may get involved in local social or political groups." According to this loan officer it is better if branch manager and loan officer

have different ethnicity and are not local. Local people, in his opinion can get involved in local social and political groups and can bring unhealthy influence on the working of bank branch.

The response of the branch managers and loan officers in regard to the role of race/caste, religion, minority status and ethnicity need to be understood in the context of organisational policies of the organisation for which they work. Since this study covers only government banks and according to the policies of these government banks, the issue of race/caste, minority status, are not to be considered in the day to day working of the branches. The branch managers and loan officers are therefore conditioned to these policies of the government banks and hence consider the issue of race/caste, religion and minority status as not being important in their relationship. But the same cannot be said about ethnicity as many bank officers face problems of adjustment with people from other ethnic groups because of their particular ethnic background and are in a position to develop better trust with people from the same ethnic backgrounds. In this case the organisational culture is the dominating influence on loan officers and branch managers.

7.3 Stages of Trust Development

The theoretical model of trust between branch manager and loan officer described in chapter 3 suggests that trust between branch manager and loan officer may develop in stages. Lewicki and Bunker (1995) and Lewicki et al. (2006) have suggested three stages of trust development as calculus based trust, knowledge based trust and identification based trust. But not every relationship follows the three stages of trust described in the literature. Some relationships do not go beyond the first stage of calculus based trust or the second stage of knowledge based trust. The following

sections analyse the relation between theoretical model and empirical observation on the three stages of trust.

7.3.1 Calculus Based Trust

The first stage of trust occurs when the trusting party and the trusted party start the relationship. This stage is based on calculus of cost and benefit of trust and parties allow adequate precautions to avoid probability of detection in case of cheating (Husted, 1998). If the cost is more than the benefit then the relationship may get severed. If the benefit is more than cost then the relationship continues. There is a threat and reward system associated with calculus based trust, where a trusting party may be able to reward a trusted party for observing appropriate behaviour contributing to trust and use threat as a deterrent for inappropriate behaviour which may break the trust.

Calculus based trust is very relevant to a supervisor subordinate relationship such as that of a branch manager loan officer relationship. The initial relationship between branch manager and loan officer is that of a calculus based trust because the branch manager as supervisor may be able to impose penalty on loan officer if the loan officer violates the branch manager's trust.

Analysis of responses on eight cases suggests that trust between branch manager and loan officer follows the theoretical pattern of three stages of trust. Calculus based trust is the first stage of trust. However, unlike theory which suggests that trusting relationships are usually voluntary, the relationship between branch manager and loan officer is not a voluntary association. Although some branch managers and loan officers may start their relationship voluntarily, in most cases both the branch manager and loan officers are thrown into the relationship involuntarily. While branch manager, sometimes, may have a choice to pick a loan officer from among the officers working at the branch, the loan officers are usually assigned to the task based on a branch's policy

of job rotation. In such a case the branch manager may not have a choice to get a loan officer of his or her own choice. A loan officer, on the other hand does not have a choice in the selection of the branch manager he or she would like to work with. Officers have to accept the placement of a position they are assigned by the organisational set up.

7.3.1.1. Cost and benefits of trust

The theoretical framework on stages of trust development suggests that trust between branch manager and loan officer should be based on the assessment of cost and benefit to the relationship between the two. (Lewicki and Bunker, 1995, 2006) If the cost of trust is more than the benefit, the relationship may not continue. If the benefit of the relationship is more than the cost, the relationship may continue. From the responses obtained, it was empirically observed that cost of trust relationship between the branch manager and loan officer has the adverse effect that lack of trust may have on the lending performance of the branch. The benefit of the relationship is determined by the improvement observed in the lending performance of the branch resulting from the trust relationship between the branch manager and the loan officer. In all cases analysed the branch manager and loan officer often realise at the time of entering into relationship that that the benefits of trusting relationships in terms of improvement of lending performance of the branch is more than the costs. Since their objective is to improve the lending performance of the branch, they consider it prudent to develop into a trusting relationship. The cost and benefits of trust relationship are related to the objectives of the organisation. The best way to achieve this objective was determined to be to encourage the development of a trust relationship between branch manager and loan officer.

7.3.1.2 Threat and Reward System

The theoretical framework on stages of trust development (Lewicki and Bunker, 1995) suggests that calculus based trust relies on a threat and reward system. The trusting branch manager should be able to reward a trusted loan officer for observing the appropriate behaviour attributed to trust relationship. But if trust is violated, then the branch manager should be able to use some kind of threat against the loan officer imposing certain penalties on the loan officer. Yet contrary to the empirical observation from cases analysed, it was found not to reflect what the theory suggests in this regard. The branch manager can use the threat or reward system for observation of trust only within organisational rules. If the loan officer does not observe the trust relationship then the branch manager has no way to use any form of penalty except the one provide under the performance appraisal system of the bank.

If the loan officer observes the trust in relationship with the branch manager then branch manager is no position to give any reward to loan officer but may be able to provide a recommendation for promotion of loan officer to higher authorities. The branch manager cannot give any cash or kind reward nor he or she is in a position to penalise the loan officer in any way for violation of trust. The threat and reward system can only be observed within the limits and boundaries of the organisational rules.

From the response on cases, it was observed that the attitude of most loan officers towards a possible use of threat by branch manager was that the use of threat could prove to be counter productive and would have a demoralising effect on loan officer resulting in breakdown of trust. Similarly the inability of the branch mangers to reward the loan officers for observing the trust was generally accepted by the loan officer. The loan officers understood the boundaries of the organisational set up in giving any rewards.

7.3.2 Knowledge based trust

The second stage of trust is known as knowledge based trust. When the parties to a relationship based on trust have remained in their relationship for some time, they develop knowledge about each other. But not every trust relationship will grow from calculus based trust to knowledge based trust. The development of knowledge between the parties helps in developing trust into a knowledge-based trust. This knowledge development helps in predicting the behaviour of the other party. The prediction is made by obtaining constant information about the other party and by interacting constantly with the other party. With repeated interactions, the ability to predict behaviour of the other party becomes more accurate, reliability of the other party increases and this growth in predictability and reliability helps in the growth of trust in relationship.

Knowledge-based trust requires acquisition of information about the other party, using that information to predict the behaviour of other party. Regular communication and interaction between the trusting party and trusted party is necessary. Even where inconsistent behaviour is observed between the individuals in the trust relationship, this inconsistency is often understood through knowledge acquired in constant interaction and may not reduce trust between them. (Lewicki and Bunker, 1995, 2006)

For a branch manager-loan officer relationship, knowledge-based trust starts developing after the initial stage of calculus based trust. Knowledge-based trust starts after the branch manager and loan officer have been in the relationship for some time. Through constant interaction and observation of each other's actions, they develop knowledge about each other's behaviour and after some time are able to predict the behaviour of the other in terms of likely decisions or recommendations on a loan request. Knowledge-based trust is particularly relevant to loan officer, who has the

opportunity to observe the branch manager's behaviour and anticipate branch manager's possible reaction to a loan request.

In all eight cases observed empirically, trust between branch manager and loan officer grew from calculus based trust to knowledge-based trust after the branch manager and loan officer continued in the relationship for some time. However, in one branch (case B), there was a strained relationship between the branch manager and the loan officer previously and it took longer to come from calculus based trust to knowledge based trust for the branch manager and the loan officer. In all other branches the relationship grew smoothly from calculus based trust to knowledge based trust and then to identity based trust.

In all cases, the loan officer and branch manager observed each other's actions on the job and accumulated information about each other's actions through their interaction on the work and also through social interaction. The knowledge about each other was developed directly through on the job interaction, social interaction and also indirectly by obtaining information through secondary sources such as other staff members and customers of the bank. The knowledge collected helped both the branch manager and loan officer in predicting the behaviour of the other and developing their trust relationship further. In no case it was considered appropriate to terminate the relationship after developing it through to the knowledge based trust.

7.3.3 Identification Based Trust

The third stage of trust development is identification based trust. When the two parties have known each other for a long time and have developed an understanding of each other, they know each other's needs and are ready to fulfil those needs. According to Lewicki and Bunker (1995), in an identification based trust, parties serve as agent of each other and substitute for each other. In this stage delegation of responsibility and

authority from the trusting to the trusted party occurs with the understanding that interests of the trusting party will be protected by the trusted party. Trusting party would in this stage rely on the behaviour of the trusted and would not constantly monitor or observe the behaviour of the trusted. (Lewicki and Bunker, 1995, 2006)

According to the theoretical framework describing the stages of trust developed, in an identification-based trust stage, there would be a commitment to share goals and objectives between trustor and trusted. Identification based trust starts when the parties have known each other well and can predict the needs, choices and preferences of the other party. The development of knowledge in the previous stage of knowledge based trust helps in the prediction of the behaviour of the trusted. When the parties know each other well then they can think, feel and respond to situations in similar ways. Delegation of responsibility in such a situation becomes easy and less risky. (Lewicki and Bunker, 1995, 2006)

In the relationship between branch manager and loan officer, identification based trust would start after both branch manager and loan officer have been in the relationship for some time. During this time they have the opportunity to observe the behaviour, preferences, likes and dislikes of each other. The knowledge developed also helps in predicting the behaviour of the other in possible lending situations. The knowledge between branch manager and loan officer about each other is developed through direct contact with each other in work situations and also through parties such as other staff members and customers with whom both branch manager and loan officer come in contact during the course of business.

7.3.3.1 Delegation of authority

The theory suggests that in identification based trust, the loan officer will be able to anticipate the actions or choices of branch manager in regard to particular

lending situations and would act according to the perceived choice of the branch manager. The branch manager on his part would want to delegate some of his authority on lending to loan officer for decision making. The branch manager would expect the loan officer would take actions in a way that those actions are perceived to be right by the branch manager. When the branch manager allows the loan officer to take decisions on loan applications they would expect the loan officer to get their actions confirmed by the branch manager later on. If the loan officer takes any wrong action on loan application, on delegation, it may be detrimental to the interests of the branch manager and mutual trust between loan officer and branch manager may not continue.

The responses obtained across the eight cases suggest that branch managers and loan officers develop identification-based trust after some time when they have remained in a trusting relationship for a while. They develop knowledge about the actions, choices and preferences of the other party by working with each other and by observing each other directly. The second order knowledge through other people such as other staff members in the branch and through customers is also very important in most of the cases for development of identification based trust.

From the responses analysed, it is observed that delegation of authority by branch manager to loan officer is an important issue in building identification based trust between branch manager and loan officer. Particularly, the loan officers expect the branch managers to delegate their authority to loan officers (case A). The loan officers consider the delegation of authority by branch managers as demonstration of trust by the branch manager in loan officer (case C). The loan officers see delegation as a motivation for development of trust by the branch managers (case G).

It is observed that the delegation of authority by branch managers to loan officers in the third stage of identification based trust is not uniform. Each branch

manager has different approach to delegation of their lending authority to loan officer and every branch manager insists that delegation is only for certain specified functions. All delegations are however subject to subsequent confirmation by the branch manager and also subject to head office guidelines for such delegation.

The delegation of lending authority by branch manager to loan officer happens in different ways. For example, branch manager delegate authority on loan disbursement, on completion of paper formalities or documentation and on allowing sanction of specified categories of loans within a specified range (case A). The specified loans usually cover loans against deposits, loans against government bonds, secured loans, consumer loans and salary loans (case B). These loans are usually less risky loans. Authority is also delegated for limited loan facilities to existing loan customers with line of credit and previous dealings with the branch. Lending authority is not delegated by branch managers to loan officers on loans to new customers or on unsecured loans which are perceived to be more risky (case A).

Again each branch manager has their own range to which they want to delegate their lending authority. The range is from 10 per cent of the secured loans to 50 per cent of the secured loans, where branch manager decide to delegate their authority to loan officer (Case F). Complete delegation as stipulated in the theory is not observed in practice. Branch managers keep most of the lending authority for themselves, delegating only a limited authority to loan officers. In all cases the branch managers insist that even when authority is delegated to loan officer, the loan officer is required to consult branch manager before exercising the delegated authority. Any delegation is made only within institutional rules and subject to confirmation by the branch manager. Although branch managers are willing to take some risk by way of delegation of authority to loan officer, the risk is not taken outside the institutional rules of their organisation. As such,

the delegation of authority is only limited despite the growth of a trusting relationship between branch manager and loan officer.

7.4 Trust and lending performance

The effect of trust on lending performance of bank branches has not been widely studied before. In this thesis one of the important issues studied is whether the development of trust between branch manger and loan officer improves the lending performance of the branch. If it does then how does this growth in trust between branch manager and loan officer contributes to improvement in lending performance of the branch.

The literature suggests that growth of trust does lead to an improvement in efficiency and development of the financial sector (Calderon et. al, 2002). Davies et. al (2005) have suggested that trust creates an intangible asset, that agencies can use in influencing agency selection and therefore improve their own performance and provide benefits to clients. Gill et al (2006) have examined the factors of trust between banks and their clients and concluded that client relationship can be improved by improving trust with the client. By improving the client relationship, banks can improve their performance. However, each of the papers studied examine the role of trust between bank and client on bank performance. In the current research, trust between branch manager and loan officer is examined to determine if trust in this type of relationship contributes to the lending performance of bank branches in India.

The lending performance of the branches was observed on the following variables of branch performance – number of loan accounts, rupee amount of loan disbursement, implementation of Reserve Bank of India/ head office (RBI/HO) directives to the branches, recovery of non performing assets, quality of asset management and risk management, interest income/fee on loans, expenses on loans and

Table 7.8 : Improvement in Lending Performance of the Branch attributed to trust between Branch Manager and the Loan Officer

Perception of Branch Managers percentage improvement in last one year									
Lending Parameter	Case A	Case B	Case C	Case D	Case E	Case F	Case G	Case H	Average
	%	%	%	%	%	%	%	%	%
Number of Loan Accounts	50	30	20	25	25	50	90	50	42.5
Rupee amount of Loans disbursement	50	30	20	25	25	50	90	50	42.5
Implementation of RBI/Ho directives	80	25	20	25	25	80	90	80	53.1
Recovery of Non performing assets	10	50	100	50	50	30	90	60	55
Quality of Asset Management	50	40	100	50	50	60	60	60	58.75
Risk Management	10	40	90	50	20	60	100	60	53.75
Interest/Fee Income on Loans	10	40	30	100	25	40	100	60	50.6
Expense on Loans	10	40	30	10	10	20	100	60	35
Increase in profits on loans	10	40	30	80	25	25	90	60	45

Table 7.9: Improvement in Lending Performance of the Branch attributed to trust between Branch Manager and the Loan Officer

Perception of Loan Officer- Improvement in last one year									
Lending Parameter	Case A	Case B	Case C	Case D	Case E	Case F	Case G	Case H	Average
	%	%	%	%	%	%	%	%	%
Number of Loan Accounts	20	100	20	75	10	50	90	80	55.6
Rupee amount of Loans disbursed	70	100	20	75	10	50	90	80	61.8
Implementation of RBI/Ho directives	70	100	100	75	10	70	90	80	73.7
Recovery of Non performing assets	10	100	25	100	10	30	100	100	59.4
Quality of Asset Management	100	100	100	100	10	40	100	100	81.3
Risk Management	10	100	60	75	50	70	100	100	71.9
Interest/Fee Income on Loans	90	100	30	100	50	50	50	100	71.3
Expense on Loans	60	100	10	100	50	10	50	100	60
Increase in profits on loans	10	100	20	100	50	50	30	100	57.5

increase on profitability of loans. The purpose was to determine if these parameters of branch performance are affected in any way by the growth of trust between branch manager and loan officer of bank branches. The perception of branch managers and loans officers were obtained separately on the percentage change in performance parameters which can be attributed to trust between branch manager and loan officer. The results are given in table 7.8.

Tables 7.8 and 7.9 indicate that trust between branch managers and loan officers contribute significantly to an improvement in all lending parameters mentioned above. Although the perception of branch managers and loans officers on the extent of improvement on lending parameters vary, there is a general agreement that the growth of trust between branch managers and loan officer improves lending performance of the branches.

A comparison of Tables 7.8 and 7.9 suggests that the loan officer perceives higher improvement in lending performance due to the development of trust as compared to branch managers. For example, average improvement in number of accounts due to growth in trust perceived by loan officers is 55.6% as compared to branch managers' perception of 42.5% increase in number of loan accounts. Similarly, the loan officers have suggested that on an average the quality of assets can be improved with growth of trust by 81.3% whereas the branch manager have suggested an improvement of 58.78% in that category.

From Tables 7.8 and 7.9 it is concluded that there is a wide variation in each category on the extent of improvement in lending parameters across cases. For example, improvement in rupee amount of loan disbursement ranges from 20% in case C as compared to 90% improvement in rupee amount of loan disbursement in case G as perceived by respective branch managers. Similarly improvement in quality of asset

management attributed to trust ranges from 10% (case E) to 100% (cases A,B,C,G,H), according to the perception of respective loan officers. The improvement in lending parameters is observed across all branches and in all cases.

Trust between branch manager and loan officer contributes to an increase in lending portfolio by way of increase in number of loan accounts and rupee amount of loan disbursed. With trust, branch managers and loan officers can reduce the lead time of loan assessment and subsequent disbursal. This helps in increasing the number of accounts by way of an increase in the number of lending customers. Reduction in processing time of loans means more loans can be processed in a given time resulting in the increase in number of loans and amount of loans disbursed. Trust also leads to better information collection by the branch and better analysis of the information. The increase in quality of information available leads to better loan assessment, setting the terms and conditions, loan covenants and reduce the risk of default for bank. The quality of assets can be improved and also risk of loans can be reduced.

Implementation of RBI/HO directives is critical to the performance of bank branches as bank branches are evaluated on how well they implement the directives of Reserve Bank of India and policies of Head Office. Proper implementation requires understanding the outcome of those directives on branch business, developing strategies in implementation, and putting effort on contacting borrowers. Proper implementation also requires providing prospective and current clients with proper marketing products and services, proper assessment and disbursement of loans and collection of outstanding loans.

The growth in trusting relationship between branch manager and loan officer is necessary to implement all these steps and helps in reducing the lead time of lending and collection of loans, especially delinquent loans. Recovery of non-performing loans

is speeded up by an effective relationship between branch manager and loan officer because branch manager and loan officer can jointly negotiate effective recovery strategies with defaulting borrowers on revised terms and conditions and help the borrower in reducing their default position.

Increase in number of loans and rupee amount of loan lead to increase in interest income and fee income for the branches. With increase in lending the lending expenses also increased as well as profit on loans which also increased for all the branches after providing for the expenses. The trust relation between branch manager and loan officer helped to increase in loan accounts and thus profitability on loans.

From the responses obtained, the most significant effect of trust relation between branch manager and loan officer was observed to be on the quality of asset management and risk management. The growth of trust relation between branch manager and loan officer leads to more effective analysis of borrower's lending risk based on understanding of borrowers business and better collection of borrowers' information. The quality of asset management and risk management improved due to better lending analysis, collection and analysis of information about borrower and better negotiation of lending agreements and follow up of loan accounts.

The trust relation between branch manager and loan officer helped in improving lending performance of the branch in all variables of branch performance observed in this study although the extent of observed improvement is different in different branches. From table 7.8, the perception of the branch managers on the extent of improvement in lending parameters due to trust can be summarised as: improvement in number of loan accounts (20% to 90%), rupee amount of loan disbursement (20% to 100%), improvement in implementation of Reserve Bank of India/Head Office directives (20% to 90%), recovery of non-performing assets (20% to 90%), quality of

asset management (40% to 90%), risk management (10% to 100%), interest/fee income on loans (30% to 100%), expenses on loan (10% to 100%) and increase in profit on loans (10% to 90%).

From table 7.9, the perception of the loan officers on the extent of improvement in lending parameters due to trust can be summarised as: improvement in number of loan accounts (10% to 100%), rupee amount of loan disbursement (20% to 100%), improvement in implementation of Reserve Bank of India/Head Office directives (10% to 100%), recovery of non-performing assets (10% to 100%), quality of asset management (10% to 100%), risk management (10% to 100%), interest/fee income on loans (30% to 100%), expenses on loan (10% to 100%) and increase in profit on loans (10% to 100%).

7.5 Summary of the chapter

In this chapter and in the previous chapter, the analysis of eight cases studied was done on the basis of theoretical model of trust between branch manager and loan officer of Indian bank branches. A synthesis of the analysis performed within each case and across cases suggests that the model of trust between branch manager and loan officer needs to be extended. This theoretical model of trust is based on the model of Mayer, Davis and Schoorman (1995) and on the stages of trust development described by Lewicki and Bunker (1996). The application of these models to the relationship between branch managers and loan officers of Indian bank branches consists of the following components:

Branch managers and loan officers of Indian bank branches face risk in their lending business. The risk in lending leads to development of trust between branch manager and loan officer. The development of trust between branch manager and loan officer require certain factors of trustworthiness. The trust between branch manager and

loan officer develops in three stages. Each stage is characterised by certain activities. The trust between branch manager and loan officer leads to improvement in lending performance of bank branches in India. The relationship between these components of trust is explained in the theoretical framework of trust developed in chapter 3 of this thesis and explained in the Figure 3.1.

7.5.1 The elements of the model of trust between branch manager and loan officer

The elements of the framework of trust between branch manager and loan officer are described below:

Branch managers and loan officers are part of banking organisation and they are two most important parties in the lending management of a bank branch. Branch manager and loan officer face a risky situation in lending due to risk factors determined by external environment. The risk in lending motivates branch manager and loan officer to develop a trusting relationship. The trust relationship between branch manager and loan officer evolves due to perceived benefit of risk reduction in a lending situation. The development of trust between branch manager and loan officer depends on certain factors of trustworthiness. The trust between branch manager and loan officer develops over three stages. The trust between branch manager and loan officer contributes to the improvement of lending performance of a bank branch in India.

A branch manager is a person who is responsible for the management of a bank branch in India. A loan officer is a person selected to the position by the branch manager to help him/her on the lending management of a bank branch.

7.5.1.1 The purpose of model of trust between branch manager and loan officer

A model of trust between branch manager and loan officer describes the way in which trust operates in a lending relationship between branch manager and loan officer.

The general purpose of the model is to describe the role of trust in building and developing lending relationship between branch manager and loan officer of bank branches. The specific purpose of the model is to describe how trust operates in the relationship between branch manager and loan officer. The operation of trust takes place in identifying the need for developing trust in a risky situation such as lending, developing trust between branch manager and loan officer based on certain key factors of trustworthiness, the stages of development and maintenance of trust between branch manager and loan officer, the benefits of trust between branch manager and loan officer being the improvement of lending performance of the branch and how the trust between branch manager and the loan officer is constrained by organisational factors and business environment of bank branch in India.

7.5.1.2 The elements of the model of trust

The model of trust between branch manger and loan officer consists of the following elements. The first element of the model is to understand and describe the reasons that motivate branch manager and loan officer to develop trust and continue in trust relationship. The second element is to understand the key factors of trustworthiness of branch manager and loan officer. The third element is to investigate the stages of trust development between branch manager and loan officer. The fourth element is to find the effect of trust on lending relationship between branch manager and loan officer. The relationship of these elements can be explained below.

The branch manager and the loan officer of the bank branches in India work in a risky environment. The risk in lending arises due to lending environment India which is exacerbated by a number of factors. The lending environment in India is risky because of government intervention in lending. The government intervention in lending has put in place a policy of directed lending to certain sectors of economy, which banks are

expected to implement. The other risk to the banks is that the information available to branch manager and loan officers in India is less as compared to banks in other countries. Banks in India do not have easy access to credit information on borrowers – current and prospective. The third risk to banks is that the financial law in India is also not very developed and the legal process of recovery of loans is very time consuming.

Due to all these risk factors in lending, branch managers and loan officers have to depend on the social risk evaluation process for reducing the credit risk. Trust provides a mechanism by which they can reduce this risk. The development of trust in relationship between branch manager and loan officer helps in reducing credit risk by increasing the benefits of developing the relationships.

The development of trust between branch manager and loan officer is based on certain key factors of trustworthiness. Based on the theoretical model developed in this study, this thesis found seven key factors of trustworthiness of branch manager and loan officer. These factors are – similarity, knowledge, benevolence, behavioural integrity, behavioural consistency, communication and culture. These seven factors are not exclusive to each other but together play a major role in determining the trustworthiness of the branch manager and loan officer. Each of these factors contributes to the relationship in a different way.

The first factor of trust identified in this thesis is similarity. Similarity between branch manager and loan officer exists in different ways. Similarity in work style, similarity in personal qualities, similarity in previous lending experience and similarity in ethnicity contribute to trust between branch manager and loan officer. The second factor of trust between branch manager and loan officer identified in this thesis is knowledge. Knowledge increases the ability of branch manager and loan officer to carry out their tasks in an efficient way. If the lending tasks are performed efficiently, the

relationship between branch manager and loan officer develops. In order to carry out lending tasks efficiently, the loan officer need knowledge about various policies and procedures of the bank, analytical skills such as balance sheet analysis skills, legal knowledge, knowledge about people, place and customers. For efficient working, the branch manager would need knowledge about lending skills, ability to take decisions and resolve conflicts and handle unforeseen circumstances as well.

The third factor of trust between branch manager and loan officer identified in this thesis is benevolence. Benevolence is the additional good that one of the parties in a trust relationship is inclined to do to the other. In a branch manager-loan officer trust relationship, sensitivity to the needs of the other and being considerate to the other were parts of the benevolent actions that one would take in a trust relationship.

For a loan officer, protection in the event of loan losses or mistakes in lending, to be provided by the branch manager as a superior officer, was considered a benevolent action of branch manager. Lending is a risky business which could result in losses to the bank. In such a case, if a loan officer is held responsible for the losses then branch manager would be expected to protect a loan officer from resulting consequences.

The fourth part of benevolent action was the need for the branch manager not to exploit the loan officer. The branch manager, being a superior officer, is in a position to exploit the loan officer as a subordinate. Branch managers on their part wanted the loan officers to show them loyalty to them as subordinate officers.

The fourth factor of trust between branch manager and loan officer identified in this thesis is behavioural integrity. The three components of behavioural integrity empirically observed were – consistent past actions, congruence between action and words and honesty and integrity. The observation of consistent past actions of trusted party help in developing initial trust between trusting party and trusted party.

Congruence between actions and words creates a belief in trusting party that trusted party has a sense of justice and would adhere to agreements. Honesty and integrity of trusting party and trusted party helps in continuing the trust relationship.

The fifth factor of trust between branch manager and loan officer discussed in this thesis is behavioural consistency. Ability to work under stress, reliability and predictability in the behaviour of branch manager and loan officer were considered parts of the behavioural integrity.

The sixth factor of trust between branch manager and loan officer was observed to be communication between the two. Clear communication and openness to feedback are considered important to establish and continue trust relationship. The use of local dialect in contributing to trust between branch manager and loan officer was not considered important although use of local dialect was considered useful in communicating with customers.

The last factor of trust is culture. Culture is an essential part of networks in Indian context. Economic relationships such as the trust relationship between branch manager and loan officer are influenced by cultural factors (Taube, 2004). From the responses obtained, the cultural factors that were considered important for trust between branch manager and loan officer were nurturance, personal involvement, social beliefs and ethnicity of the other person. The role of race/caste, religion and minority status of the other person were not considered important in trust relationship in this study although some other studies suggest that these factors could be important in developing trust relationship in Indian context.

The trust between branch manager and loan officer develops in stages. This thesis has determined three stages of trust development between branch manager and loan officer – calculus based trust, knowledge based trust and identification based trust.

The first stage of calculus based trust is characterised by considerations of cost and benefits of a trust relationship. The cost considered is the decline that may happen on the lending performance of the branch as a part consequence of not having a trusting relationship. The benefit is perceived to be improvement in branch performance.

The calculus based trust is also characterised by a threat/reward system. But the role of a threat/reward system was not observed to be important in the present study because managers were not in a position to reward their loan officers or use any threats against them as their ability to use threat/reward was hampered by organisational rules.

The second stage of knowledge-based trust is characterised by development of knowledge about each other through interaction and observation of each other's actions in trust relationship by branch manager and loan officer. In this context, the knowledge developed directly by loan officer and branch manager through direct interaction was considered important. The use of second order information obtained from other sources was also considered important for the development of trust because customers, other staff members and other stakeholders also provide valuable information about branch manager and loan officer.

The third stage of identification-based trust is based on the understanding developed about each other, knowing each other's needs and readiness to fulfil those needs. In this stage, delegation of part of lending authority by branch manager to loan officer results in increasing trust between the two. The branch managers delegate part of their lending authority to loan officer in this stage.

The delegation is however limited by organisational rules and procedures. Branch managers do not delegate their complete lending authority to loan officers but only delegate a limited lending authority to them. The delegation is given either on a part of lending function or some categories of decisions to be taken by loan officers.

The delegation is given subject to confirmation by the branch manager and given on limited amount of loan or class of loans only. In none of the cases did, branch managers completely delegate their lending authority to loan officers at any time.

It was observed in this thesis that the trust relationship between branch manager and loan officer contributes to an improvement in the lending performance of bank branches in India. The purpose for which branch managers and loan officers enter into a trust relationship is partly motivated by their perception of the benefits of trust relationship through improvement in lending performance of bank branches. From the responses obtained, it is observed that improvement in lending performance is correlated with the growth in trust relationship between branch managers and loan officers. The improvements were recorded in number of loan accounts, rupee amount of loans disbursed, implementation of head office/Reserve Bank of India directives and policies, recovery of non-performing assets, improvement in quality of asset management and risk management, increase in generation of interest income/fee income on loans, increase in profitability of loans. Although it is difficult to quantify the exact effect of trust on improvement in lending performance of the branches, the branch managers and loan officers are in agreement that lending performance improves significantly as a result of the growth of trust relationship between branch manager and loan officer.

It is observed in this study that the organisation of the branch manager and loan officer plays an important part in their relationship. First, the branch manager and loan officer enter into a trust relationship as a part of an organisation. They consider it prudent to enter into a trust relationship because it appears to help in improving the achievement of organisational goals, which are linked to their personal goals as well. Their relationship is also influenced by the organisation as the organisational rules and

procedures and systems influence the way in which the relationship is started and developed. The organisation determines the rules, regulation and procedures of their conduct. The knowledge about the process and procedure they are expected to acquire and risk factors involved in their relationship is also determined by organisational settings.

Chapter 8

Findings, Conclusions, and Implications

8.1 Introduction

The objective of this study is to investigate the role of trust in developing and sustaining a relationship between branch managers and loan officers of Indian bank branches. This thesis attempts to answer the following three critical questions on the relationship between branch managers and loan officers.

- 1) What are the key factors of trustworthiness between branch managers and loan officers of Indian bank branches?
- 2) What are the stages of development of trust between branch managers and loan officers of bank branches?
- 3) What is the effect of trust between branch manager and loan officers on the lending performance of bank branches in India?

A summary of the in-depth analysis carried out to achieve the overall objective of this study is as follows. Followed by the introductory chapter, chapter 2 of this thesis discusses the organisational context of the banking system of India as necessary background for understanding those organisational, structural and management factors that makes trust a significant behavioural aspect in the relationship between branch managers and loan officers of Indian bank branches. In this chapter, the operational and regulatory structure of Indian banking system is described so that the environment in which branch managers and loan officers operate can be understood. This chapter is divided into five parts: historical context of Indian banking system, organisational structure, banking policies, lending policies and performance of Indian banks.

First the historical development of Indian banking system and major characteristics of each phase of development of Indian banking system are discussed to identify the main characteristics and factors that drove the development of Indian banking system. Next, the structure and organisation of banks in India are discussed. The structure is important in determining the external factors that impact on the relationship between branch managers and loan officers. The policy context, in which banks operate in India are examined next. The way these policies affect the risks for banks is also discussed. Lastly, the performance of Indian banks is discussed to determine the factors that influence the growth and profitability of banks in India. The growth, structure, policies and performance of banks have many implications for lending by bank branches in India. These implications create credit risk for branch managers and loan officers of Indian bank branches as they try to implement these policies and procedures in an environment determined by government policies and bank structure.

In chapter 3, a theoretical basis for describing the relationship between branch managers and loan officers of Indian bank branches is established. It was argued that Trust theory, not the Agency theory, is the most appropriate theoretical approach to gain insight into the behavioural issues, dimensions and factors that operate in the formation, development and effective operation of the relationship between branch managers and loan officers of Indian bank branches. The theoretical model of Mayer, Davis and Schoorman (1995) was used as the basis for describing the framework of trust between branch managers and loan officers of Indian bank branches. The stages of trust development described by Lewicki and Bunker (1996) provide a broad basis for identifying and describing the stages of trust development between branch managers and loan officers.

The framework of trust between branch managers and loan officers described that risk created by government lending policies, legal environment and organisational structure of banks encourages development of trust between branch managers and loan officers. The role of risk in the framework of trust is reformulated in the present study to include risk from external environment as the motivating influence for development of trust between branch managers and loan officers. Additional risk arises when branch managers and loan officers trust each other and depend on each other. This risk is an outcome of development of trust. The trust between branch managers and loan officers in this study is considered situational trust versus voluntary trust in previous studies of Mayer et al. (1995).

The framework of trust between branch managers and loan officers was developed to include factors of trust. These factors identified from the literature are: similarity, knowledge, benevolence, behavioural integrity, behavioural consistency, communication and culture. Culture as a factor of trust was included in the framework of trust for the first time because culture is considered an important determinant of business relationship in India.

Next, the three stages of trust development between branch managers and loan officers were identified as calculus based trust, knowledge based trust and identification based trust (Lewicki and Bunker, 1996). Finally it was established that trust between branch managers and loan officers, helps in improving the lending performance of bank branches through reduction in transactional costs and relational governance. The performance indicators for observing improvement related to trust were identified as number of loan accounts, amount of loan disbursed, implementation of head office/Reserve Bank of India directives and policies, recovery of non-performing loans,

improvement in quality of asset management, increase in generation of interest/fee income and increase in the profitability of the branch.

Chapter 4 of this thesis defines and explains the research design and methodology used in this thesis. This chapter defines the data required in this thesis, how the data was collected and what are the major steps required in data collection. It also explains the steps required in collection, selecting, recording and organising the data. Also, the reasons behind selection of case study as a research method are explained. Finally various steps involved in analysis of data collected are explained.

This study uses a qualitative method of research because quantitative methods of research cannot capture the complexities of the relationship between branch managers and loan officers. A case study method is used in this thesis to collect and analyse the data because this study involves in-depth study of factors that influences the relationship between branch managers and loan officers. The case study method provides the ability to understand the interaction between branch managers and loan officers in a real life setting of bank branch. For the purpose of this study, eight bank branches were selected for the study based on the accessibility of the branch managers and loan officers and their desire to participate in this study.

The data was analysed using the Pattern Matching technique developed by Troachim (1989). Pattern matching links and relates theory with the observed data. NVivo was used to analyse the data collected through interviews in eight cases. First, each case was analysed individually through a “within case” analysis. This within case analysis helped in resolving the complexities of each case and in observing the unique insight that each case data offers. Next, cross case analysis was done across all cases through a variable oriented analysis. The cases were analysed based on common themes and common attributes.

A detailed description of the eight cases is given in chapter 5 of this study. These cases provide the foundation for empirical data collection and analysis in this thesis. The relevant background information of each case is given in chapter 5. It is necessary to grasp the background information of business environment and condition of each case because the business environment and condition influence the way in which branch managers and loan officers interact with each other.

The background information on bank branches is divided into two parts. The common features of branch organisation of each branch and functions performed by bank branches are given first in Section 5.2. These features are about the functions carried out by various departments in each branch and the role and responsibilities of branch managers, loan officer and assistant branch manager. The distinct features of each branch relating to their location, size, nature of business and organisation are described in section 5.3. These features are determined by unique location, business environment and condition in which each branch operates. The description of the background information relates to the operation of business activities of each branch was collected from the branch manager, loan officer and other sources in the branch and recorded by the researcher in each case.

In chapter 6, each case which forms part of the observational pattern is analysed in terms of the theoretical framework of trust described in chapter 3 of this thesis. The observations made in each case are separately analysed on all three components of this study, namely, the key factors of trust between branch managers and loan officers of bank branches, the stages of development of trust between branch managers and loan officers of bank branches and the effect of trust between branch managers and loan officers on the lending performance of bank branches in India.

The data used in the analysis was obtained by responses made through interviews of branch managers and loan officers of Indian bank branches by the researcher. The interview questions were based on the theoretical framework of trust described in chapter 3 of this thesis. The interview data was collected on three dimensions of this study described above.

The purpose of analysis of individual cases is to develop an understanding of a particular case with respect to the theoretical pattern and the research questions. This understanding is developed by comparing the theoretical pattern with the observational pattern. Through the analysis of individual cases, a connection is established between variables represented by interview questions and the theoretical model of trust, stages of trust development and the effect of trust on the lending performance of each branch. This connection helped in analysing how different branch managers and loan officers used a particular aspect of trust and how that use conveys meaning to the theoretical pattern. The analysis of each case helps in resolving the complexities of each case and in observing the pattern and insights that each case data offers.

In chapter 7, analysis is done across all cases studied in this thesis. The purpose is to identify common themes across cases. The events and processes described in one case are specific to that case but if those events and processes are repeated in other cases, it would help in increasing the generalisability of the research done. The study of factors of trust, stages of trust development and the effect of trust on the lending performance of the bank branches across cases helps in understanding the common themes on these variables across cases.

The cross case analysis in chapter 7 is carried out through a software based variable analysis. The group of observed cases are compared on common attributes of factors of trust, stages of trust development and lending indicators through common

codes in NVivo. The purpose is to understand the common factors across different cases. If there are any exceptions then the reasons behind those exceptions are also explored to develop an understanding of a particular deviation from the observed common pattern.

8.2 Findings

The findings of this research are summarised below.

1. The branch managers and loan officers of bank branches in India work in a risky environment. The risk in lending arises due to lending environment in India. The government intervention in lending has put in place a policy of directed lending to certain sectors of economy which banks are expected to implement. The second risk to the bank arises when the information available to branch managers and loan officers in India is less compared to information available to banks in western countries. Particularly, lack of credit information about borrowers could lead to incorrect credit assessment of borrowers. The third risk is that financial law in India is not very well developed and the legal process of loan recovery is very time consuming in India.
2. Due to these risk factors, branch managers and loan officers of Indian bank branches have to depend on a social risk evaluation process in order to reduce credit risk. Trust provides a mechanism by which they can reduce this risk. The development of trust between branch managers and loan officers helps in reducing credit risk as mutual trust leads to certain benefits to branch managers and loan officers in risk reduction.
3. The development of trust between branch managers and loan officers is found to be based on certain key factors of trust between branch managers and loan officer. These factors are: similarity, knowledge, benevolence, behavioural

integrity, behavioural consistency, communication and culture. These seven factors were found not to be exclusive to each other but together play a major role in determining the trustworthiness of branch managers and loan officers. Each of these factors contributes to the relationship between branch managers and loan officers in different ways.

4. The first factor of trust found to be significant is similarity. A branch manager of a bank branch is more likely to trust a loan officer whom he or she perceives to have characteristics similar to his own versus a loan officer with different characteristics. Similarity helps in identifying common characteristics between the two individuals and contributes to the initial development of trust in the relationship. Similarity between branch manager and loan officers was found to exist in different ways: similarity in work style, similarity in personal qualities, similarity in previous lending experience and similarity in ethnicity.
5. The second factor of trust between branch manager and loan officer is knowledge. Knowledge increases the ability of the branch managers and loan officers to carry out their tasks in an efficient way. In order to perform lending tasks efficiently, the loan officers were found to have knowledge about various systems and procedures, knowledge about products and policies of the bank, analytical skills such as balance sheet analysis skills, legal knowledge and knowledge about people, place and customers. Branch managers, in addition, were found to have knowledge about ability to take decisions, resolve conflicts and handle unforeseen circumstances.
6. The third factor of trust between branch manager and loan officer is benevolence. Benevolence is the additional good that one of the parties in trust relationship is inclined to do the other party. In case of branch manager-loan

officer relationship, four components were found to be significant. These are: sensitivity to the needs of the other party, being considerate to the other party, protection to loan officer in case of loan losses or mistakes in lending and the need for the branch manager not to exploit the loan officer. The perceptions of the branch managers and loan officers, however, differed in regard to the protection given to loan officers in case of loan losses or mistakes in lending. While the loan officers insisted on provision of protection to them by branch manager in case of loan losses, the branch managers insisted that any protection to loan officers could be provided only within institutional rules and only if there were no evidence of fraud in case of loan losses. The branch managers expressed their inability to provide any protection to loan officers if there was an evidence of fraud or negligence on the part of loan officers.

7. The fourth factor of trust between branch managers and loan officers found to be significant is behavioural integrity. Three components of behavioural integrity observed to be significant are: consistent past actions, congruence between actions and words and honesty and integrity. The observation of consistent past actions of the trusted party helps in developing initial trust between branch managers and loan officers. Congruence between action and words created a belief in the trusting party that trusted party has a sense of justice and would adhere to agreements. Honesty and integrity of trusted party and trusting party helped in continuation of trust relationship.
8. The fifth factor of trust between branch managers and loan officers found to be significant is behavioural consistency. Ability to work under stress and reliability and predictability of the behaviour of branch managers and loan officers were considered part of behavioural consistency that helped in

continuation of trust. Ability to work under stress was considered important in branches which had large customer base and which had several competing demands on loan officers and branch managers. For loan officers, stress usually arose when there were deadlines to be met specially during the end of financial year or calendar quarter. Branch managers wanted the loan officers to be reliable in completing the assigned tasks within time limits. The loan officers wanted the branch managers to be predictable through consistency in decision making.

9. The sixth factor of trust found to be significant for trust between branch managers and loan officers is communication between the two. Clear communication and openness to feedback are considered important to establish and continue trust relationship. Feedback provided by loan officer to branch managers is considered significant because in the Indian context many supervisors in India usually do not respond positively to feedback from subordinates. The use of local dialect as a component of communication was not considered significant in contributing to trust between branch managers and loan officers because both branch managers and loan officers could communicate in Hindi and English very well. The use of local dialect was however considered important for communication with customers.
10. The seventh and last factor of trust between branch managers and loan officers found to be significant is culture. The cultural factors that are considered important are nurturance, personal involvement, social belief and ethnicity of trusted party. Race/caste, religion and minority status of trusted party were not considered significant for trust relation between branch managers and loan officers. The issue of race/caste, religion and minority status and ethnicity are important issues in India because of the existence of many religions, castes and

ethnic groups in the country which compete with each other for their share of influence in government jobs. The response of the branch managers and loan officers in regard to the role of race/caste, religion, minority status need to be understood in the context of organisational policies of the organisation for which they work. This study covers only government banks and according to the policies of these government banks, the issue of race/caste, minority status, are not to be considered in the day to day working of the branches. The branch managers and loan officers are, therefore, conditioned to these policies of the government banks and hence consider the issue of race/caste, religion and minority status as not being important in their relationship. But the same cannot be said about ethnicity as many bank officers face problems of adjustment with people from other ethnic groups because of their particular ethnic background and are in a position to develop better trust with people from the same ethnic backgrounds. In this case the organisational culture is the dominating influence on loan officers and branch managers.

11. It was found that trust between branch managers and loan officers develop in three stages of calculus based trust, knowledge based trust and identification based trust as suggested by Lewicki and Bunker (1996). Each stage is characterised by activities which are unique to that stage and also to the relationship between branch managers and loan officers.
12. The first stage of calculus based trust is found to be characterised by considerations of costs and benefits of a trust relationship. The cost considered is the decline in the lending performance of the branch as a consequence of not having a trusting relationship. The perceived benefit of trust is the improvement of lending performance of the branch as a result of trust in relationship.

13. According to Lewicki and Bunker (1996), calculus based trust is also characterised by a threat/reward system between the trusting and the trusted party. But in the present study, the operation of a threat/reward system was not found to be significant in case of trust relationship between branch managers and loan officers. The branch managers as supervisors were not in a position to reward the loan officers for observing trust nor the branch managers were able to use any threats against loan officers as the ability of branch managers to pursue a threat/reward system was limited by organisational rules in place.
14. The second stage of knowledge based trust was found to be characterised by development of knowledge about each other through mutual interaction and observation of each other's actions by the branch managers and loan officers. The knowledge developed by branch managers and loan officers about each other through direct interaction was considered significant for trust. The use of second order information obtained from customers, other staff members of the branch and other stakeholders was also considered important in developing and maintenance of trust between branch managers and loan officers.
15. The third stage of identification based trust is found to be based on understanding developed by branch managers and loan officers about each other, knowing each other's needs and readiness to fulfil those needs.
16. It was also found that in the third stage of identification based trust; branch managers delegated part of their lending authority to loan officers. This delegation is however limited by organisational rules and policies. The delegation of authority to loan officers by branch managers was given only for a part of lending authority. The delegation is limited to certain amounts on loans or some categories of loans such as secured loans. There was no delegation on

risky loans such as unsecured loans. The delegation is given subject to subsequent confirmation of lending decisions by the branch managers. In none of the case studied, the branch managers were found to delegate complete lending authority to loan officers.

17. It is found that trust between branch managers and loan officers contributed significantly to the improvement of lending performance of bank branches. Improvement in lending performance of the branches is found to be related to the growth in trust relationship between branch managers and loan officers. The improvement in lending performance was found across all lending indicators of the branch: number of loan accounts, amount of loan disbursed, implementation of head office/ Reserve Bank of India directives and policies, recovery of non-performing assets, improvement in quality of asset management and risk management, increase in generation of interest income/fee income on loans and increase in profitability of on loans.
18. It is further found that the trust relation between branch managers and loan officers is influenced by the characteristics of organisation in which they work. First the branch manager and loan officer enter into a trust relationship as part of an organisation. They consider it necessary to enter into a trust relationship because trust appears to help them in achieving the organisational goals of lending which are linked to their personal goals of progression in career. Their relationship is found to be influenced by organisational rules and procedures, regulations and systems. The knowledge developed about processes, procedures, products and services is also determined by organisation settings of the banks and their branches.

19. This thesis has examined significant characteristics of Indian banking system that makes it different from western banking system. First, about eighty per cent of Indian banking system is owned by government whereas western banks are privately owned. The political and administrative control of public sector banks in India contribute to poor profitability of public sector banks, their poor work culture, general indifference to consumer services. Strong trade unions in banks sometimes paralyse banking industry. Non-performing loans of Indian banking industry lead to lack of sustainability and viability of public sector banks. There is a lack of transparency in the provision of information to customers. Different banks have different policies in regard to collateral security arrangements.
20. Due to significant differences between the Indian banking system and Western banking system, the analytical techniques used for western banks are not useful to understand the unique nature of Indian banking system. A social risk evaluation based on trust theory is found to be more appropriate for Indian banking system given the unique nature of Indian banking system.
21. This thesis found that trust theory is a good descriptor of relationship between branch managers and loan officers. The relationship between branch managers and loan officers is multi-faceted. Both branch managers and loan officers have responsibilities to many people within organisation and outside the organisation. There is no direct principal-agent relationship between branch managers and loan officers. Both are dependent on each other for their work. The relation between branch managers and loan officers is a supervisor- subordinate relation as well. Both branch managers and loan officers are involved in the business of lending to customers, which involves taking informed risks on loans the outcome of which remains uncertain. Unlike principal-agent relationship where

agents try to gain at the expense of principal, in case of branch manager loan officer relationship, gains and losses are reflected in organisational gains and losses. In such a situation of mutual vulnerability, trust theory is found to be able to describe interpersonal relationship such as the one between branch managers and loan officers, in a better way as compared to agency theory.

21. Through the description of bank branches it is found that the relationship between branch managers and loan officers is also influenced by industrial climate and relations with staff unions in the branch. The relation with staff unions also influences the delivery of services at the branch level. The staff levels of the branches, local conditions and regional location of the branch contribute to slow development of the branches.

8.3 Major Conclusions

The first conclusion is that the branch managers and loan officers of Indian bank branches face risk in their lending operations. This risk depends on the external environment of lending. The lending environment in India and the nature of risk in lending in India is different from other western developed countries. There is considerable amount of state intervention in bank lending in India. All banks including public sector banks have to observe guidelines from government of India in their lending activities. As discussed in chapter 2 of this thesis, all public sector banks are required to lend 40 per cent of their total loans to specified priority sectors of economy. The Credit Guarantee Fund (CGF) established to refund a part of defaulted loans to banks reduces the incentives for the banks to assess and monitor the loans properly but also motivates the borrowers to undertake risky business activities because borrowers expect the Credit Guarantee Fund to pay a part of their defaulted loan amount. Banks in India, particularly, public sector banks have a large portfolio of non-performing assets.

The large portfolio of non-performing loans arises because banks have followed the government norms in lending, resulting in increase in non-performing loans. Also, the lending banks in India do not have the same level of legal protection for enforcement of security and financial contracts through the legal system as the banks in western countries. Enforcement of these financial contracts through legal system is time consuming and costly. Due to the risk faced by branch managers and loan officers in lending, branch manager and loan officer enter into a trust relationship. Risk in lending management leads to trust. The purpose of trust is to reduce the lending risk and improve the lending performance of the branch.

The second conclusion of this research is that the trust between branch manager and loan officer depends on several factors of trust. These factors of trust are – similarity, knowledge, benevolence, behavioural integrity, behavioural consistency, communication and culture. Culture as a factor of trust in banking business in India is considered for the first time in this thesis. Each of these factors of trust has sub-components which are considered important for trust between branch managers and loan officers.

The third conclusion of this thesis is that the trust between branch manager and loan officer is found to have developed in three stages—calculus based trust, knowledge based trust and identification based trust. The first stage of trust, calculus based trust, is characterised by rational calculus of cost and benefits of trust. The perceived cost of trust is underperformance of the branch and perceived benefit is the improvement in lending performance of the branch. A threat and reward system may operate in the first stage where the branch manager may be able to use reward for observance of trust and threat for non-observance of trust. In the second stage of trust known as knowledge based trust branch manager and loan officer develop knowledge about each other

through direct on-the-job interaction, through social interaction and indirectly through secondary relationships such as those with other staff members. The third stage of trust known as identification based trust starts after loan officer and branch manager have developed trust in relationship and had time to observe actions of each other in the relationship. In this stage the loan officer would anticipate the actions of the branch manager in particular lending situations then act according to the perceived choice of the branch manager. Delegation of authority from branch manager to loan officer occurs in identification based trust.

The fourth conclusion is that trust between branch manager and loan officer contributes to improvement of lending performance of bank branches in India. Improvement of lending performance on following variables were observed – Number and rupee amount of loan accounts, implementation of Reserve Bank of India/head office directives, recovery of non-performing loans, quality of asset management, risk management, increase in interest and fee income of loans and profitability on loans.

Finally, the trust between branch manager and loan officer is influenced by the organisation in which branch manager and loan officer work. The branch manager and loan officer enter into trust relationship as part of an organisation. The main motivation for development of trust for branch manager and loan officer is to improve the lending performance of the branch, as part of organisational goals. The trust relationship between branch manager and loan officer is influenced by organisational rules, procedures and systems. The knowledge required to develop trust is also determined by organisational procedures, processes and systems.

8.4 Implications of this research

8.4.1 A theoretical framework of trust between branch managers and loan officers of bank branches in India

The first implication of this thesis is for the theoretical model of trust of Mayer, Davis and Schoorman (1995) which has been modified in this thesis and applied to the theoretical framework developed to the trust between branch managers and loan officers of bank branches in India. Whetten (1989) provides the criteria of theoretical contribution from research as (i) adding or subtracting variables from the existing model of theory, (ii) demonstrating the impact of adding or subtracting additional variables, (iii) finding and explaining the anomaly that may change relationship, or (iv) proving unrealistic assumption of the model. In this thesis, the theoretical model of trust developed by Mayer, Schoorman and Davis (1995) was modified by adding another factor of trust, culture to their model. In addition, the notion of risk used in their model was modified to include the risk as a motivating factor for development of relationship. The model of Mayer, Davis and Schoorman (1995) is discussed in Chapter 3. The framework of trust between branch manager and loan officers of Indian bank branches is built on four major elements and is described below.

The first element of modified framework is that branch managers and loan officers of Indian bank branches work in a risky lending environment. The risk levels in Indian bank branches are higher compared to western banks. This risky situation encourages development of trust between branch managers and loan officers. The risk in Indian banks arises due to government intervention in bank lending in India. All public sector banks in India are required to lend 40 per cent of their loans to specified priority sectors of economy. The Credit Guarantee Fund established to refund a part of defaulted loan to the banks reduces the incentives for banks to assess and monitor loans properly. It also motivates borrowers to undertake risky business activities as borrowers

expect the Credit Guarantee Fund to pay a part of their defaulted loan. Public sector banks in India have a large portfolio of non-performing loans because the banks have followed government policy on lending resulting in increase in non-performing loans.

The second element of the framework is that the trust relationship between branch managers and loan officers depends on several specific factors of trustworthiness. These factors of trustworthiness are: similarity, knowledge, benevolence, behavioural integrity, behavioural consistency, communication and culture. The original model of Mayer, Davis and Schoorman (1995) had three factors of trust as ability or knowledge, benevolence and integrity. Subsequent research by Valez (2000) and Wintoro (2000) identified three additional factors of trust as behavioural consistency, similarity and communication. In the current research, an additional factor of culture is incorporated into the model of trust. Culture is considered as a crucial factor of trust in business relationship between branch manager and loan officer in the Indian context because culture fundamentally influences the way in which business is conducted and relationships defined in countries such as India, which have a rich cultural history and multiplicity of religions and social groups. Taube (2004), considers culture as an essential part of social networks in India and regard caste and ethnicity as important attributes of culture in India. Siehl and Singh (2004), consider cultural factors of religion, caste, language as important aspect of business relationships in India. Rishi (2002), strongly support culture led leadership style in India and found that cultural factors like values of affiliation, personal concern and nurturant leadership can create climate of trust between people in business in India.

The third element of framework is that the trust between branch managers and loan officers develops in stages. The three stages of trust development are given by Lewicki and Bunker (1996) as calculus-based trust, knowledge-based trust and

identification-based trust. Empirical observations revealed that in general, the trust between branch managers and loan officers develop in these three broad stages. Each stage of trust is characterised by consideration and activities in relationship between branch managers and loan officers.

Initial formation of trust depends on the calculations of potential benefits and costs of entering and developing a trust relationship. If the benefits of trust development are perceived to be more than cost of not entering into trust, parties will enter into a trust relationship. Also, a threat/reward system operates where trusting party is able to use a threat against the trusted party for not observing trust and would reward a trusting behaviour on the part of trusted. As the trust develops between branch manager and loan officer their relationship grows further through the development of mutual knowledge. With the growth in trust the parties learn and identify with each other's needs, preferences, and priorities and adopt them as their own. When the parties to the relationship have already developed sufficient knowledge about each other, each party is ready and willing to serve as the agent of the other and identify themselves with the actions of the other. The trusting party delegates some of their responsibilities to the trusted party. The trusting party assumes risk in delegating those responsibilities to the trusted party and likewise the trusted person takes a risk in assuming responsibility.

The fourth major element is a reformulation of the role of risk in trust between branch managers and loan officers. In trust models developed by Mayer, Davis and Schoorman (1995), the risk arises in relationship after trusting party and trusted party enter into a trust relationship. The trust between trusting party and trusted party is considered to be a voluntary agreement between the two parties involved in trust. In the current framework of trust between branch manager and loan officer, the assumption of Mayer, Davis and Schoorman (1995), may not hold good because in the branch

manager loan officer relationship, risk is pre-existing. Since branch managers and loan officers work in a risky environment, risk is the cause of trust and reason for which branch manager and loan officers enter into a trust relationship. Additionally, when the branch managers and loan officers enter into a trust relationship, they assume risk in trust relationship by creating dependence on each other. The model of Mayer, Davis and Schoorman (1995) takes into consideration the later risk after the parties enter into trust relationship whereas the current framework of trust describes two roles of risk. One as the cause of development of trust relationship between branch manager and loan officer and the second is the consequence of entering into a trust relationship when branch manager and loan officer trust each other and depend on each other. The current framework of trust is able to better describe the role of risk specific to branch manager loan officer relationship as compared to the model of Mayer, Davis and Schoorman (1995) which considers risk arising after the development of trust between parties in trust.

The second difference between the model of Mayer, Davis and Schoorman (1995) and the current framework of trust is that in the model of Mayer, Davis and Schoorman (1995), the trust between parties to trust relationship is considered a voluntary association between the two based on perceived cost of trust and benefits of trust. In the current framework of trust, trust is considered as situational because branch manager and loan officers may not always enter into a trust relationship voluntarily. Being part of an organisation, branch managers and loan officers may not have choice in regard to the work they do and people they may associate with. Yet they may enter into trust relationship. This development of trust between branch managers and loan officers is situational and not voluntary. But the consideration of cost of not entering into trust and benefits of entering into trust relationship apply to branch manger loan

officer relationship as well. Branch managers and loan officers enter into trust relationship based on the perceived costs and benefits of trust.

8.4.2 Providing empirical evidence of factors of trust between branch managers and loan officers

This thesis found that the branch managers and loan officers of Indian bank branches develop trust based on certain key factors of trustworthiness. These key factors of trustworthiness were studied using eight case studies of eight Indian bank branches. Each branch is considered as one case for the purpose of this study. The factors of trustworthiness between branch managers and loan officers are: similarity, knowledge, benevolence, behavioural integrity, behavioural consistency, communication and culture. Out of these, culture is a new factor of trustworthiness introduced in this study. Culture is considered very significant in Indian context as business relations in India are considered culturally sensitive. According to Singh and Siehl (2002), cultural factors of religion, caste and language are an important aspect of business relations. Each of these seven factors of trust was found to contribute significantly to the growth of trust between branch managers and loan officers.

The first factor of trust found to be particularly significant in the relationship between branch managers and loan officers is similarity. Similarity between branch manager and loan officer helps in the initial development of trust as similar people find it easy to identify commonalities with each other. Three aspects of similarity were found to contribute to trust in the relationship: Similarity in work style, similarity in personal qualities, and similarity in previous lending experience. Similarity in ethnicity and other cultural factors are discussed later in culture. Similarity in work style existed when branch manager and loan officer had similar approaches to work situations. For example, a branch manager who was quick in decision making would be similar to a loan officer who would help in making quick assessment of loan applications. Similarity in

personal qualities existed where branch manager and loan officer had similar attitude and behaviour towards customers. Similarity in previous lending experience between branch manager and loan officer was attributed to experience of working in a previous branch or office of the bank in a lending situation.

The second factor of trust found to be significant is knowledge. Knowledge or ability helps in carrying out work-related tasks in an efficient way while efficient delivery of products and services helps in improving the performance at branch level. Improvement in efficiency increases the perceived benefits of trust relationship. In the relationship between branch managers and loan officers, three important aspects of knowledge were found to be significant. These are: knowledge about various systems and procedures of the bank, knowledge about people, place of location of branch and customers and lastly the knowledge about products and policies of the bank. These aspects of knowledge help in developing lending skills, improve the ability to take decisions about the products and services on offer and help in understanding the nature of the market in which the branch managers and loan officers operate. Efficient delivery of products and services is beneficial to the branch manager and loan officers in their performance. The knowledge thus developed helps in increasing efficiency of branch operation and benefits the branch manager and loan officer contributing to growth of trust between branch managers and loan officers.

The third factor of trust found to be significant is benevolence. Benevolence is the additional good that the branch manager and loan officer are willing to do to each other (Valez, 2000). By being considerate to each other and by being sensitive to the needs of each other, branch managers and loan officers help each other. One of the important aspects of benevolence found to be significant is the protection that branch managers provide to the loan officers in case of adverse events. Since bank lending is a

risky business, adverse events and mistakes do happen in lending. In case of lending loss to the bank, if a loan officer is held responsible for the loss, then branch manager's benevolent actions may help the loan officer in a difficult situation resulting from a loan loss. The assurance of protection by branch manager to loan officer helps significantly in increasing trust between branch manager and loan officer.

The second significant theme of benevolence was found to be "non exploitation of loan officer by the branch manager". Branch managers, as superior officers are in a position to exploit loan officers who are subordinates and loan officers considered it important that branch managers not use their authority to exploit them in any way. Branch managers, on their part, wanted the loan officers to be loyal to them as subordinates. Loan officers on the contrary wanted the branch managers to differentiate between institutional loyalty to the organisation and personal loyalty to the branch manager. Loan officers placed importance on institutional loyalty to the organisation as against personal loyalty to the branch managers.

The fourth factor of trust between branch manager and loan officer arising from the case studies was observed to be behavioural integrity. The significance of behavioural integrity in the trust relation between branch manager and loan officer was understood by the way they honour their deals with customers and observe integrity in their relationships. Both branch managers and loan officers observed each other's actions, behaviour and decisions and developed trust based on the behaviour. The extent to which managers acted consistently on their decisions and the way they adhered to agreements determined the trust of loan officer in branch manager and vice versa. Three aspects of behavioural consistency were observed to be significant for trust development: consistent past actions of each other, congruence between action and words and honesty and integrity of branch managers and loan officers.

The fifth significant factor of trust between branch manger and loan officer from the case studies was behavioural consistency. Two components of behavioural consistency were observed to be important: ability to work under stress and reliability and predictability of branch managers and loan officers. Banking in India is a stressful business. There are a number of demands made on branch managers and loan officers. These pressures can cause stress on branch managers and loan officers. Ability to deal with stress was found to be important for efficient working and trust between branch managers and loan officers. Further, reliability and predictability of each other was also found to be important in the relationship because loan officers and branch managers need to reliably anticipate each other's actions in business situations. Occasionally, the loan officer may have to act in place of branch manager and take decisions on delegated authority. The knowledge developed in their relationship would help them reliably predict the branch manger's anticipated reaction to potential loan decisions. Reliability and predictability would help in reducing risk in lending decisions.

From the responses obtained, the sixth significant factor of trust observed in this study is communication. Clear communication between branch managers and loan officers is considered significant for trust between them. Openness to feedback was considered significant by both branch manager and loan officers to develop and continue trust.

Many bank branches are located in regional areas where local dialects are used by people for communication. The use of local dialect was not considered important in contributing to trust between branch managers and loan officers because the branch managers and loan officers were expected to know Hindi and English and would communicate in one of the two languages. However, the use of local dialect was considered useful in communicating with customers and developing business.

The last significant factor of trust between branch managers and loan officers in Indian context is culture. The significance of culture as a factor of trust is here considered for the first time in the context of banking relationships in India. Culture is an essential part of business environment in India. (Taube, 2004). Economic relationships in India are influenced by cultural factors. The cultural factors that were observed to be significant in this study are: nurturance, personal involvement, social beliefs and ethnicity. Some of the previous studies suggest that race/caste, religion and minority status (Taube, 2004; Rishi, 2002) could be important in relationships such as that between branch managers and loan officers. In this study however, race/caste, religion and minority status of other person were not observed to be important factor in trust between branch managers and loan officers of Indian bank branches.

The reason for the difference between this study and other studies could be attributed to the nature of organisation in which branch managers and loan officers work. The bank branches studied in this thesis are public sector banks. These public sector banks have policies on use of race/caste, religion and minority status of individuals in determining work relationships. Branch managers and loan officers are expected to follow these policies in their relationships. Hence, their responses could be conditioned by the influences of these policies. The significance of race/caste, minority status and religion in trust relationship may change if a different organisation setting than public sectors banks is used.

8.4.3 Providing empirical evidence of stages of trust development between branch managers and loan officers of Indian bank branches

From the case studies, trust between branch managers and loan officers of bank branches in India was observed to develop in three stages as suggested by the theoretical

model of Lewicki and Bunker (1996). These are: calculus based trust, knowledge based trust and identification based trust.

In the trust between branch manager and loan officers, the first stage of calculus based trust is characterised by consideration of cost and benefits of trust. The perceived cost considered was the adverse effect that lack of trust might have on the lending performance of the branch. The perceived benefit of trust was the improvement that trust might have on lending performance of the branch. In all cases, the benefits encouraging the growth of trust were considered to be significant and hence branch managers and loan officers decided to develop and continue to trust each other.

The theory suggests that in the first stage of calculus based trust, a threat/reward system operates between trusting party and trusted party. But in the branch manager-loan officer relationship, this threat/reward system was not considered to be significant as the branch managers were not in a position to reward loan officers for observing trust nor were they in a position to use any kind of threats to loan officers for not observing trust. The branch managers and loan officers operated in an organisation and organisation rules did not allow them to use any kind of threat/reward system outside the performance appraisal system of the organisation.

The second significant stage of trust in the case studies was observed to be knowledge based trust. This stage was characterised by development of knowledge about each other by branch manager and loan officer. The knowledge was developed about the other person through interaction and observation of each other's actions in trust by branch managers and loan officers. The knowledge about each other's conduct in business was developed through on the job interaction as well as interaction outside the workplace. The development of knowledge through direct interaction between branch manager and loan officer was considered more significant as compared to

knowledge developed through second order information or information obtained from third parties such as customers, other staff members and other stakeholders of the branch.

The third significant stage of trust development was observed to be identification based trust. In this stage, the branch manager and loan officer develop an understanding about each other's needs and are ready to fulfil those needs. In this stage, all branch managers delegated part of their authority to loan officers as a result of trust development. The loan officers for their part agreed to accept risk in assuming branch manager's delegated authority. But the delegation of authority by the branch manager was only partial. The branch managers delegated only a part of their authority to loan officers on some secured loans or functions. Any delegation to a loan officer was given by the branch manager subject to subsequent confirmation of the actions of loan officer by the branch manager. All the delegation of authority occurred only within the rules and procedures of the organisation only.

8.4.4 Providing empirical evidence of effect of trust on the lending performance of bank branches in India

This thesis explores the trust between branch managers and loan officers of bank branches in India and provides evidence on the effect of trust between branch managers and loan officers on the lending performance of the bank branches. Empirical evidence based on the perceptions of branch managers and loan officers was recorded on various indicators of lending performance. The evidence suggests that trust leads to improvement of lending performance of bank branches. Improvements were recorded in the following indicators of lending performance: number of loan accounts: rupee amount of loan disbursed, implementation of head office/Reserve Bank of India directive and policies, recovery of non-performing assets, improvement in quality of asset management, increase in generation of interest income/fee income on loans and

increase in the profitability of loans. These conclusions are based on subjective perceptions of the branch managers and loan officers.

It is however difficult to quantify the exact effect that trust might have on the lending performance of bank branches. But the loan officers and branch managers, in all cases were in unanimous agreement that the growth in trust between branch managers and loan officers leads to improvement in the lending performance of bank branches. The lending performance of branches can be improved significantly if there is a trust between branch managers and loan officers.

8.4.5 Providing empirical evidence on the influence of organisational constraints on trust between branch manager and loans officers of bank branches

Responses from case studies indicated that the trust between branch managers and loan officers is influenced by organisational environment in which they work. First, it was observed that the branch manager and loan officer are part of banking organisation, which places them in a relationship which involves talking risk in lending. The assumption of risk in lending business motivates branch managers and loan officers to develop trust. Trust is developed between branch managers and loan officers because perceived benefits of trust are the benefit of improving lending business of the branch. This benefit occurs to the banking organisation and is defined by the organisational context in which the branch manager and loan officers work. The banking organisation provides the cause of trust development and the benefit also occurs to the banking organisation in the form of improvement in the lending performance although branch managers and loan officers are also benefited.

Secondly, it was observed that the trust between branch managers and loan officers depends on trust factors as described above. Knowledge is considered as an important factor of trust between branch manager and loan officer. Knowledge of

bank's products and process, systems and procedure, knowledge about people, place and customers are considered important part of knowledge that branch managers and loan officers should acquire in order to develop trust. The knowledge of product and processes, systems and procedures is context driven and depends on the organisation of which branch managers and loan officers are a part. Each bank had its own policy on loans, personnel and other issues. These policies determine the conduct of its employees including branch manager and loan officer. The rules of conduct of business therefore influence the relationship between branch manager and loan officer.

Thirdly, it was observed that as a part of benevolent actions of branch managers, loan officers expect branch managers to provide them with protection in case of any adverse loan losses or errors committed in lending business. Branch managers are able to provide protection to loan officers only within the context of organisation rules and procedures. These procedures take into consideration the motivation for committing errors on the part of loan officers. The procedures also look at the transactions from the perspective of fraudulent actions.

Branch managers would not provide any protection to loan officers in their relationship which could be outside the organisational boundaries. Similarly branch managers would not provide any recommendations to higher authorities on loan officers' performance which would not be considered part of the performance appraisal process used by banks. The organisation rules and context determine the conduct of the parties in trust and limits their trust but imposing organisational boundaries within which the players have to operate. Organisation banks also have policies on race/caste, religion, ethnicity and minority status which are trust factors in the relationship between branch managers and loan officers.

Fourthly, it was observed that the evolution of trust between branch managers and loan officers was partly conditioned by the organisational profile. In the branch manager-loan officer trust, the use of reward/threat is very limited because of the organisational rules in place for use of any reward or threats in business situation. The rules of banks do not permit the use of a threat/reward system by branch managers if loan officers do not observe the terms of trust. The first stage of trust between branch managers and loan officers is constrained by the organisational environment in which they work. Trust between branch manager and loan officer is characterised by perception of cost and benefits of trust. But these costs and benefits are based on the organisational consideration of improvement of lending performance. The organisation determines the cause of trust and also provides the platform to develop the trust between branch manager and loan officer.

Next, from the responses obtained, it was observed that branch managers may delegate part of their lending authority to loan officers in the third stage of identification based trust. The delegation of part of their lending authority by the branch managers to loan officers is considered as a demonstration of trust by the branch managers in loan officers. This type of delegation however is limited to certain categories of loans, certain categories of customers and is determined by the rules of organisation in place of a particular branch. Branch managers (cases 3 and 8) were observed to delegate their lending authority to loan officers only on secured loans or loans to less risky customers. Delegation of authority on unsecured loans and loans to new customers considered risky were not delegated at all by any of the branch managers. This delegation is again organisation driven and would depend on what policies and procedures of a particular organisation would determine. The organisation is found to play a very important role in the relationship between branch managers and loan officers.

8.4.6 Analyse the historical, organisational and policy context of Indian banking system

The next important implication of this thesis is to explore the historical, organisational and policy context of Indian banking system and to examine the influences of these factors on operations of banks in India. This analysis includes the study of credit environment in India and constraints in which Indian banks operate. These constraints arise due to the policies of government in India which imposes conditions on the banks operations. The purpose of this analysis is to demonstrate that forms of organisation and structure within the banking systems determine the nature, development and effectiveness of commercial relationships within the system. The organisational context of Indian Banking System in general and branch banking in particular makes it an appropriate context for examination of the role that trust plays in the dynamics of banking relationships.

The historical context of the Indian Banking System is examined in three distinct phases. The first phase is from 1786 to 1969, the second phase from 1969 to 1992 and the third phase from 1992 onwards. The structure of Indian banking System is examined beginning with the role of Reserve Bank of India, the operations of nationalised banks, private banks, development banks, regional rural banks and cooperative banks. Next, the policy context is examined analysing the policies of cash reserve ratio, statutory liquidity ratio, branch expansion and deposit growth of Indian banks, interest rate policy, credit policy, priority sector lending and policy on social banking. The study of performance of Indian banks helps in identifying the important differences between Indian banking system and Western banking systems.

The difference between Indian banks and western banks is the public ownership of 80 per cent of banks in India whereas western banks are mostly privately owned. The government of India owns 80 per cent of banks in India and the poor profitability of

public sector banks can be attributed to political and administrative interference and control of public sector banks in India. The other causes are poor work culture, general indifference to consumer services and strong trade unions which sometimes paralyses banking industry. Non-performing loans in Indian banking industry also pose considerable threat to sustainability and viability of public sector banks. There is lack of transparency in sharing information by banks. An appropriate feedback from banks to applicants of rejected applications about performance, rating parameters and reasons for not granting loans is usually not available. Power delegated to branch managers, are usually inadequate for sanctioning loans quickly and efficiently. Different banks have different policies in regard to collateral security arrangements.

The policy initiatives of Government of India which helps in reducing credit risk for banks and those which increases credit risks for banks are also examined in detail in this thesis. Policy on priority sector lending specifies the quantum of credit to priority sector borrowers. The implications of this policy is that banks working within these policy parameters will have to dilute their credit norms and forced to lend money to borrowers with low credit ratings.

Refinance of term loans sanctioned by banks from Small Industries Development Bank of India (SIDBI) helps the banks in augmenting their resources. Banks can generate income through reinvestment of refinance obtained from SIDBI. The Credit Guarantee Fund established to refund a part of defaulted loan to banks, help in reducing credit risk for banks. It also creates a moral hazard problem for banks because by paying a portion of loan on default the Credit Guarantee Fund reduces the incentive for banks to assess and monitor loans properly.

This thesis examines these significant characteristics of Indian banking system which makes the Indian banking system different from Western banking system. This

thesis argues that because of these significant differences Indian banking system and the Western banking system, the analytical techniques used for western banks may not be useful to understand the unique nature of Indian banking system. Therefore a social evaluation of risk may be more suitable for Indian banking system.

8.4.7 Comparison of analysis of lending relationship between branch managers and loan officers of bank branches using agency theory and trust theory

The next major implication of this thesis arise from the analysis of the lending relationships using agency theory and trust theory and comparing the suitability of two theories for describing branch manager–loan officer relationship. From this analysis it is concluded that trust theory is more suitable than agency theory is describing the lending relationship between branch managers and loan officers of Indian bank branches.

Agency theory is based on agency relationship defined by Jensen and Mecklin (1976). Agency theory is based on contractual relationship between a principal and an agent. The objective of Agency theory is to identify agency problems that could arise in agency relationship and to establish options for principal which would help him or her in reducing the agency costs. According to Eisenhardt (1989) the main objective of Agency theory is to select appropriate governance mechanisms between principal and agent that would ensure an efficient alignment of principal's and agent's interests.

In the context of lending relationship between branch manger and loan officer of Indian bank branches. Trust theory is considered more appropriate in describing the relationship. The relationship between branch manager and loan officer is multi-faceted. Both branch manager and loan officer have responsibilities and accountabilities to many people within the organisation and outside organisation. Secondly there is no direct principal and agent relationship between branch manager and loan officer as both of them work for the organisation. Both branch manager and loan officer are dependent

upon each other for doing his or her job. In a multi-faceted relationship such as that between branch manager and loan officer trust theory is more appropriate in describing the relationship as compared to agency theory (Lewicki and Bunker, 1996). In interpersonal relationships involving mutual dependence such as the one between branch manager and loan officer, trust is an appropriate descriptor of the relationship between people as compared to agency theory (Michaelis, 1990, p. 620).

Next the relation between branch manager and loan officer is one of supervisor subordinate relationship. Loan officer works under the supervision of branch manager. Trust theory is a good descriptor of relationship between supervisor and subordinate. (Valez, 2000). Trust by subordinate is essential to effective action by supervisor.

Both branch manager and loan officer are involved in the business of lending to customers. The lending function in the bank involves taking informed risk on loans the outcome of which could be uncertain. Unlike principal-agent relationship where agent try to gain at the expense of principal , in a branch manager-loan officer relationship, gains and losses are reflected in organisational gains and losses and considered mutual. In such a situation of mutual dependence and vulnerability, trust theory is better able to describe the relationship as compared to agency theory. There is a goal congruence between branch manager and loan officer because both want to achieve organisational goals of lending. In situations of goal congruence trust theory is better able to describe interpersonal relationship as compared to agency theory. This thesis explores the branch manager loan officer relationship from the perspective of both agency theory and trust theory. The comparative analysis of the relationship using two theories suggests that trust theory is more useful in describing branch manager-loan officer relationship as compared to agency theory.

8.4.8 Provide empirical evidence and description on structure, organisation and operation of bank branches in India.

The next important implication of this thesis is from the description on structure, organisation and operation of the eight bank branches used as cases. This description is necessary to understand the business environment in which branch managers and loan officers function at the branches. The description of branches is divided into two parts. The common features of branch organisation were described first and then unique features of business environment and organisation of each branch is described.

The common features of branch organisation include the functions carried out by various departments in each branch and the role and responsibilities of branch manager, assistant branch manager and loan officer. Each branch has a number of departments. The important departments are cash receipt and payment department, saving bank department, current account department, fixed deposit department, draft/telegraphic transfer department and bills and clearing department. The main functions carried out by each of these departments are described in chapter 5 of this thesis. In addition the distinct features of organisation and business mix of each of these branches are described in that chapter. This description includes the location of the branch, business conditions and business mix of the branch. Although the purpose of the description is to relate the business mix and business conditions of the branches to trust between branch manager and loan officer of the branch, this description also provides unique insight into the way bank branches in India function at micro level. This insight could be useful in any future study of the functioning of bank branches in India.

The insight developed through the description of bank branches helps in understanding the interrelationship between different people at the branch level. For example, in case C, the branch functioning and the trust relation between branch manager and loan officer is influenced by the industrial climate and relations with the

staff unions in the branch. The relation between branch manager and unions not only influences the trust between branch manager and loan officer but also influences the delivery of services at the branch and the development of business at the branch. Similarly in case F, the shortage of staff at the branch influences the trust between branch manager and loan officer and also has effect on business development of the branch. The local conditions and regional location of the branch contributes to the slow development of the branch.

8.4.9 Implications of this study for bank management

This study focuses on trust between branch managers and loan officers of Indian bank branches. The purpose of this study is to understand the trust between branch managers and loan officers of bank branches in India and the effect that trust might have on the lending performance of bank branches in India. A number of recommendations can be made through this study that could have implications for the management of bank branches in India, in particular and also in other places. These implications are discussed below.

The relationship between branch managers and loan officers of Indian bank branches is critical to the lending performance of bank branches in India. A trust relation between branch managers and loan officers help in improving the lending performance of bank branches. As a corollary, a situation of distrust between branch managers and loan officers may contribute to lack of performance and problems in lending in bank branches. It is therefore critical that the placement of branch managers and particularly loan officers may be done keeping in view that they may be in a position to develop trust with each other.

The trust between branch managers and loan officers depends on several factors of trust. The following factors of trust were identified in this thesis: similarity,

knowledge, benevolence, behavioural integrity, behavioural consistency, communication and culture. Each of these factors determines the relationship between branch managers and loan officers and has implications for placement of loan officers by the branch managers.

Branch managers prefer loan officers who have some kind of similarity with them in terms of working styles, previous experience in lending and past association in a previous work situation. A lack of similarity may not help branch manager and loan officers in the development of trust between the two and consequently may contribute to lack of proper lending performance of the branch.

Knowledge is another critical factor in the development of trust between branch managers and loan officers. Knowledge of products and procedures, systems and procedures, people, place and customers is necessary to develop trust and improve lending performance of the branches. The bank's management have to ensure that both branch managers and loan officers have adequate input of their knowledge of lending. Knowledge not only helps in efficiently discharging the loan function but also helps in improving the relationship between the two. Knowledgeable and experienced branch managers and loan officers can help in improving the lending performance of the branch through improved relationship as well.

One of the important finding of this research is that the relationship between branch managers and loan officers is context driven and determined by the organisational context in which they operate. The organisational rules, procedures, context and environment help in the development and sustenance of trust relationship between the branch managers and loan officers. If proper policies are adopted at the organisational level, then these policies may help improve lending performance at the branch level by providing a context and environment in which better relationship may

evolve between branch managers and loan officers. In particular, policies on lending, performance appraisal and employee relations are critical to improvement of lending performance at the branch level.

It is also possible that in some cases a trust relationship between branch manager and loan officer may prove to be detrimental to the interests of the organisation bank. This could happen when branch manager and loan officer may develop a trust relationship to the extent that they may collude and use the opportunity to take decisions which are not in the interest of the bank. A trust relationship between branch manager and loan officer could create such an opportunity. However, if a bank adopts proper supervisory policies, obtain returns from the branch in time and ensures that internal audit of the branch is performed regularly, such an eventuality may not arise.

In conclusion, the trust between branch managers and loan officers help in improving the lending performance of bank branches, reduce risk for the banks and the branches. The banks however need to put proper management policies which may provide the proper context, procedures, policies and environment in which branch managers and loan officers operate. Monitoring the performance of the branch, branch manager and loan officer is also critical to develop and sustain the relationship between branch manager and loan officer and to improve the lending performance of the bank branches.

8.5 Limitations of this study

This research study is limited by some issues which have been addressed below. The first limitation is that this study focuses on case study of eight branches within the Indian banking system. Indian banking system is a vast banking system with approximately 76,000 branches operating in the country. A sample of eight branches cannot be considered a representative sample of whole banking industry of India. But

this limitation does not influence the conclusions arrived at nor reduces the significance of this study from the eight branches under investigation. The evidence from eight cases is considered adequate to provide support for this study proposition. According to Yin (2003, p.48) “The ability to conduct six or ten cases case studies, arranged effectively within a multiple- case design is analogous to conducting six or ten experiments on related topics. These six or ten cases would have provided compelling support for the initial proposition” According to Herriot & Firestone (1983), “The evidence from multiple cases is considered more compelling and the overall study is considered more robust.” Thus the study of eight cases studied in the present research provides sufficient evidence on trust factors between branch managers and loan officers, on the stages of trust development between branch manager and loan officer and on the relation of trust with the lending performance of bank branches in India. The case study method also facilitates the detailed study of individual cases and help in understanding the causal mechanism between the variables. A single case usually describes a large number of variables and help in observing any unexpected aspects or conditions that could be present in a case. The study of unexpected aspects is important as it helps in identifying new variables in a particular relationship of the case. The case study method helps in understanding the complex relationships between the variables and the interaction between these variables (George and Bennet, 2005, p. 20-22). The case study method helps in identifying variables determining the relationship between branch manager and the loan officer and also helps in understanding any deviations in observed behaviour from the theoretically predicted model. Eight cases in this study are considered sufficient to look at large number of variables determining the relationship between the branch manager and the loan officer of Indian bank branches. In this study an in-depth

study of trust between branch managers and loan officers of bank branches in India, is undertaken through empirical observation of their behaviour in a real life situation.

The case study method is useful where an in-depth study such as this study is undertaken. While no claim for generalization is made from such a small sample the case study approach has a valid place where an in-depth exploration and understanding of particular branches can provide description of the real life interaction between branch managers and loan officers of bank branches.

The contributions made by this thesis are significant because no previous study on the relationships between branch manger and loan officers of bank branches exists. This research study provides empirical evidence of trust relation between branch manager and loan officer and describes the factors for the development of trust between branch manager and loan officer. This thesis also examines the stages of trust development between branch managers and loan officers and the activities undertaken by branch managers and loan officers in the three stages of trust development. Furthermore, the effect of trust on lending performance of bank branches is also studied. The conclusions arrived here would help the bank management not only in India but other countries in taking policy decisions for functioning of the bank branches.

The second limitation of this study is that the data collected is based on the perceptions of the branch managers and loan officers. These perceptions are however subjective perceptions gained from interviews of the branch mangers and loan officers. The subjectivity of these interviews does not reduce the significance of this study because the observations recorded help in understanding the relationship between branch manager and loan officer in depth.

Further the data recorded uses a cultural setting of Indian banking system. Although conclusions arrived here are valid for the functioning of Indian banking

system, this study can be replicated in other cultural settings and banking systems and provide a forerunner for future studies of trust relationship in banking systems.

This study is limited to trust between branch managers and loan officers of Indian bank branches. But this study can be extended to trust between other players in financial market situations such as between managers and customers or to trust relations in other financial institutions. Wintoro (2000) has carried out a study of trust between investment managers and trustees of funds in Indonesia and their thesis is an example of trust relation in a different financial environment and cultural settings. An extension of the present study in other cultural settings and banking systems would help in understanding the working of banks at the micro level of branches and in different cultural perspective. The recent banking crisis in the world has underscored the need to understand the working of banks and financial institutions more deeply so that risk faced by the banks can be understood well.

8.6 Recommendations for further research

This research focuses on trust relation between branch managers and loan officers of Indian bank branches. The study uses eight branches of Indian banking system as case study to understand the nature of trust relationship in a financial market setting of banks. The banking system of India provides a unique environment in which the trust relationship has been studied in this thesis. However, there are banking systems in other countries which have characteristics very different from Western banking system. The study of role of trust in this banking system can be useful in understanding how the trust relationships determine the behaviour of bank functionaries in different cultural and regulatory settings.

This thesis focuses on one form of banking relationship which is the trust relationship between branch managers and loan officers. In addition to branch managers and loan officers, customers of the bank have a very important role to play in lending environment. A study of trust relation between bank and customers can provide a good understanding of the various factors of trust between bank and customers and stages of trust development between bank and customers. The study of evolution of trust between bank and customers in various cultural settings can help the banks in understanding the nuances of relationship with the customers, which can then be used to develop banking policies, products and processes focused at specific group of customers in different cultural settings.

This thesis has undertaken a study of trust relationship between branch managers and loan officers. But there are a number of other functionaries working in a bank branch who contribute to the growth and operations of the bank branch. These functionaries operate at various levels. For example, in addition to branch manager, assistant branch managers, officers working in different departments such as saving bank department, current account department also work in a branch setting. Further the branch manager works under the supervision of general managers. The trust relationship between these functionaries at different levels of bank organisation can also contribute to the factors of trust and help the banks in devising policies that may contribute to reduction of transaction costs in banking operations.

This thesis has studied the relation between branch manager and loan officer using a trust theory approach to the relationship. In addition, this thesis has also explored the utility of agency theory in describing the relationship between branch managers and loan officers. Although trust theory is considered most suitable in describing the relationship between branch managers and loan officers, it is possible to

use other theoretical framework such as institutional theory in describing this relationship. A different theoretical approach to study the same relationship may provide information about the relationship from different perspectives and provide information about the suitability of other theoretical approaches in relation to trust theory.

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