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The Indore Management Journal is published by the Indian Institute of Management, Indore, in the belief that management scholars and social scientists should integrate disciplines in an attempt to understand the complexities of contemporary management challenges.

We also believe that both researchers and practitioners can contribute by translating understanding into action, by linking theory and practice. These would enhance the relevance and thought in various related fields taking us a little outside traditional fields of management, such as sustainable development. We would like to draw special attention to our openness to such thinking as well as approaches.

This could entail working within one's area or crossing disciplinary boundaries. As an international journal, we also invite manuscripts from all countries. We welcome, too, proposals for special issues from potential guest editors. These should include how the topic or theme fits in with the Indore Management Journal's objectives. The descriptions of manuscripts (or the manuscripts themselves), along with author details should be submitted with the proposal.

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Editorial

The IPL fiasco, with the resignation of both Shashi Tharoor and Lalit Modi, has made us aware that trust, more often than not, is an issue in business deals. This relationship between trust and monitoring is studied in this issue through an experimental study.

Our second research paper emphasises on placing the customer perceptions and expectations of both private and public sector banks under the scanner - because a service orientation is today the need of the hour. If manufacturing is doing well, the service sector needs such pointers for altering mindsets and attitudes.

Leadership in banks needs to respond to newer orientations too - we take Ms. Soundara Kumar's journey to the position of Managing Director of the State Bank of Indore, since this gives us insights into what it takes to lead a national public bank.

Another look at the working of a national bank as a case study permits us to seek the answer to questions of changing infrastructure. Including IT as a facilitator in this process brings out the issues and challenges faced by older public service institutions.

All change affects us personally, both in mind and in spirit; Swami Samarpanananda's piece on harnessing mental energy sends us a message helping us to deal with it. Harsh Mariwala's interview leads us to believe in an Indian way of leading and entrepreneurship in competitive times just as the previous article emphasises the all-pervasive Indian spirituality.

The two book reviews take up our concern for Indian public institutions: evolving with the times - the Indian Railways, which has seen a turnaround in recent years, and the making of IIT Kanpur into an institution of excellence. With such inspiring examples we are turned believers in the Indian spirit to reinvent, nurture and develop world-class institutions despite the numerous challenges posed by our environment.

Abha Chatterjee

Relationship Between Trust and Monitoring - An Experimental Study of Principal-Agent Relationship

R. C. Natarajan

Abstract

Principal-agent relationship, which is characterised by the absence of legitimate power, necessitates monitoring and control by the principal to align the activities of the agent to the collective goals. However, complete monitoring of the agent is impossible and expensive. Certain amount of trust is inevitable. This research postulated *negative relationship* between *goodwill trust and control-based monitoring* on the one hand and *between competence trust and need-based monitoring* on the other. The research work used laboratory experiment capturing data from a sample set comprising executives as well as postgraduate management students, both through questionnaires and through a simulation. The study found support to the postulated negative relationships between trust and intended monitoring. However, actual monitoring manifested through allocation of time found rare support for the postulates.

The uniqueness of this research lies in its formally examining certain a priori beliefs about trust and control as well as questioning them. Importantly, it lends support to the argument that reported intended behaviour and actual behaviour are not the same in trust-control contexts.

Key words: Principal-Agent Relationship, Trust, Goodwill Trust, Competence Trust, Monitoring, Control-based Monitoring, Need-based Monitoring, Laboratory Study, Experimental Research.

1. Introduction

Research works about business organisations and inter-relationships amongst organisational elements vary in focus according to the discipline in which the study is made. Management research, being eclectic, has captured both static and dynamic aspects of relationships. A major area where certain degree of cross pollination amongst different disciplines has occurred is the relationship between the principal and the agent, attracting the attention of socio-psychologists, economists and management scholars over a quarter century (Das & Teng, 2001; Eisenhardt, 1989; Ouchi, 1979; Sappington, 1991; Williamson, 1975), the aspect of principal's efforts to control agent's behaviour and the outcome of his behaviour continue to arouse interest.

Relationships can be governed by contracts, cultural legacies or mutual co-operation. There is a limit to bring to contract every action of the partner. Monitoring beyond contractible aspects has its limitations too. It is expensive and is always short of total. Therefore, one has to look for phenomena beyond contracts and control/monitoring to carry a relationship forward productively. One such phenomenon is trust. Trust is necessary to engage in any meaningful economic co-operation (Ouchi, 1979, p. 846). Further, trust is said to beget trust, which can be interpreted as *trust shown yields trusting behaviour*. In addition to such

Pygmalion effect, trust is cited as mitigating the need for control or as a form of control itself (Bradach & Eccles, 1989). In the field of relationship marketing, trust is found to play a mediating role leading to co-operation (Morgan & Hunt, 1994). This article captures the relationship between principal's trust in the agent and his monitoring - an important element of control - of the agent.

2. Principal-Agent Relationship

Principal-agent relationship has been covered in the field of economics in *agency theory* as well as in *transaction cost analysis* (TCA). The two frameworks concede that the principal is boundedly rational, which, coupled with information asymmetry regarding the agent's behaviour, causes inefficient controlling of the relationship by the principal. Both theories emanate from the basic belief that the agent is poised to act *opportunistically* - *opportunism defined as self-seeking with guile* (Williamson, 1975, p. 26). Agency problem arises out of (a) conflicting goals of the principal and the agent and (b) principal's difficulties in verifying the agent's behaviour.

Agency theory is concerned with how the principal can best motivate the agent to perform as the principal would prefer, taking into account the difficulties in monitoring the agent's activities (Sappington, 1991, p. 45). It is prescriptive of the incentives and contracts between the principal and the agent (Eisenhardt, 1989). Agency theory deals with those contexts where (a) the principal has a need to control the agent, (b) information asymmetry is inherent in the relationship - stacked against the principal - and (c) the principal has a need to minimise his own risks. Ideally, the agent's information and action both should be monitored. However, Agency theory recognises that information, and hence monitoring, are costly. The challenge of agency relationship arises whenever - which is almost always - the principal cannot, perfectly and costlessly, verify agent's information and monitor his action (Pratt & Zeckhauser, 1985, p. 2-3). Hence, it studies the trade-off between the cost of measuring agency behaviour on the one hand and the cost of measuring outcomes and transferring risks to agent on the other.

TCA, on the other hand, looks at the principal-agent relationship in the context of organisation structure. TCA challenges neoclassical economics' contention that market mechanism - through the operation of the invisible hand - is the best form of administration, stating that when the market mechanism fails to take care of aberrations in the market for the factors of production, the firm emerges as a control mechanism (Coase, 1937; Williamson, 1975).

Thus, these two frameworks of principal-agent relationship focus on control of the agent through different dimensions, implicit in which is the fact that control has been the core of much of research on inter-organisational relationships, both in economics and in management.

3. Trust and Monitoring in Principal-Agent Relationship

Every relationship characterised by interdependence requires co-operation. Increased co-operation between the members increases the agent's satisfaction and thus endures the relationship (Duarte & Davies 2004).

3.1 Trust

Scholars have questioned the assumption of 'self-seeking' (Rocha & Ghoshal, 2006). Trust is an important antecedent to co-operation (Anderson & Narus, 1990). In any relationship characterised by interdependence, neither member is capable of perfect knowledge of the other; hence, there are uncertainties and risks embedded in such relationship. Trust works as a means for coping with such uncertainty (Bachman, 2001). 'Uncertainty is critical to trust because trust is unnecessary if the trustor can control an exchange partner's actions or has complete knowledge about the actions' (Moorman, Zaltman & Deshpandé, 1992, p. 315; emphasis in original). Such uncertainty should involve a potential loss to the principal through the agent's renegeing or opportunism. Only under conditions of uncertainty and risk trust is relevant and becomes a meaningful phenomenon. Trust has no meaning when there is no risk of any loss to the principal. The risk of opportunism must be present for trust to operate (Bradach & Eccles, 1989, p. 104) that may cause potential damage to the trusting party. Thus, trust implies 'the mutual confidence that no party to an exchange will exploit another's vulnerabilities' (Barney & Hansen, 1994, p. 176). That is, trust is a risky engagement (Bachman, 2001, p. 342).

Trust can be either about the agent's ability to carry out certain actions or about the agent's good intentions - or the absence of it. Scholars distinguish between these two types of trust by the terms *goodwill trust* and *competence trust*, respectively (Das & Teng, 2001). 'Trust may concern a partner's ability to perform according to agreements (competence trust) or his intentions to do so (goodwill trust)' (Nooteboom, 1996, p. 990; parentheses and emphasis in original).

Trust is stated to be at cognitive and affective levels (Lewis & Weigert, 1985; McAllister, 1995). Trust can be at awareness level, based on hardcore data and rational deduction, a matter-of-factly acknowledgement of having learnt of the agent's acting in the desired manner. This is termed as *cognitive trust* (T_{COG}). Trust can be at affective level, where the principal not only acknowledges the facts of the agent's trustworthiness but also *believes* that the agent will continue to do so in future. Obviously, past cannot be the best predictor for all future phenomena. However, when the principal transcends such rational thought process and chooses to be affectively convinced about the agent's likely act in future, that trust is termed as *affective trust* (T_{AFF}). In addition, trust is considered at intended behavioural level and then stated behavioural level (Cummings & Bromiley, 1996). The principal's express willingness to act on the basis of the affective trust is termed as *intended trusting behaviour* (T_{INT}). The final stage is the actual behaviour as expressed through the action. This is termed as *actual trusting behaviour* (T_{ACT}). The current research has considered the two constructs of overall trust, that is, goodwill trust (GWT_{OVR}) and competence trust (CT_{OVR}) and in

parts such as cognitive (GWT_{COG} , CT_{COG}), affective (GWT_{AFF} , CT_{AFF}), intended behavioural (GWT_{INT} , CT_{INT}) and actual [manifest] behavioural (GWT_{ACT} , CT_{ACT}) trusts.

3.2 Monitoring

'When one person, interdependent with another, cannot count on that person to be dependable, he or she can take steps to manage uncertainty inherent in the situation' (McAllister, 1995, p. 30). This is partly achieved through monitoring. Monitoring refers to observing, measuring and/or recording with a view to controlling the performance of a person, equipment or a system against certain standards. Stricter monitoring enables disciplining of agents both through preventing them from doing harmful deeds and through helping them gain expertise in the required task performance. Complete understanding of and total certainty about agent's behaviour are impossible both due to the cost of such monitoring and due to the bounded rationality of the principal. Hence, the principal ought to engage in monitoring sparingly to optimise costs, time and efforts.

A principal may gather such information either with a view to helping the agent - such as deciding on training needs, guiding in planning - or with a view to preventing the agent from committing certain undesirable acts or to ensuring that the agent carries out desired actions. That is, the principal's monitoring of the agent can be (a) for preventing the agent from certain acts of commissions, (b) for ensuring that the agent carries out certain acts and does not shirk, (c) for helping the agent to perform better - through training of the agent or his personnel and/or (d) for safeguarding the agent from hostile actions of competitors. Monitoring for achieving the first two purposes can be termed as *control-based monitoring* (M_C), a term used by McAllister (1995). Gathering information 'to keep track of associates' needs' mentioned in (c) and (d) above is termed as *need-based monitoring* (M_N) (McAllister, 1995, p. 31).

3.3 Trust and monitoring

Trust and monitoring have been mentioned in combination in research literature. 'Trust is a particular level of the subjective probability with which an agent assesses that another agent or group of agents will perform a particular action, both *before* he can monitor such action and in a context in which it affects *his own* action' (Gambetta, 1988, p. 217: emphasis in original). One either must be able to monitor the other or must trust the other for engaging in any viable and meaningful economic relationship (Ouchi, 1979, p. 846). Embedded in this oft-cited statement is the core of the current research: the negative relationship between trust and monitoring. When the principal trusts the agent, the former does not have to engage extensively in activities such as monitoring the latter or building safeguards in the relationship both of which are costly processes (Andaleeb, 1996) and superfluous. The action of the principal vis-à-vis the agent is likely to be such that he will bother less to collect data about the agent's behaviour in the presence of trust. In other words, where there is trust, a priori, there will be less monitoring or control. This has been frequently mentioned in research literature (Andaleeb, 1996; Gambetta, 1988; Ouchi, 1979; Reed, 2001; Sydow, 1998; Sydow & Windeler, 2003), although efforts to test such a negative relationship

are scanty, barring Andaleeb (1995), who, inter alia, tested the negative relationship between trust and control in a buyer-supplier context. McAllister (1995) studied the relationship between trust and monitoring in such dimensions that are very different from those considered in the current research. He studied the relationship between (a) cognition-based trust and control-based monitoring and (b) affect-based trust and need-based monitoring, and found support only for the latter.

The current research is an attempt to study the relationship between trust and monitoring by dissecting both the constructs into their sub-constructs. Specifically, when the principal trusts the agent for his integrity - high goodwill trust - one expects to witness low control-based monitoring. Therefore, it is proposed that goodwill trust and control-based monitoring are negatively related. Specifically,

H1: Goodwill trust and control-based monitoring are negatively related

H11: Cognitive goodwill trust and control-based monitoring are negatively related

H12: Affective goodwill trust and control-based monitoring are negatively related

H13: Intended goodwill trusting behaviour and control-based monitoring are negatively related

H14: Stated goodwill trusting behaviour and control-based monitoring are negatively related

Similarly, when the principal trusts the agent for his ability to perform tasks as expected - high competence trust - one expects to witness low need-based monitoring. Therefore, it is proposed that competence trust and need-based monitoring are negatively related. Specifically,

H₂: Competence trust and need-based monitoring are negatively related

H₂₁: Cognitive competence trust and need-based monitoring are negatively related

H₂₂: Affective competence trust and need-based monitoring are negatively related

H₂₃: Intended competence trusting behaviour and need-based monitoring are negatively related

H₂₄: Stated competence trusting behaviour and need-based monitoring are negatively related

Similarly, trust as a whole is expected to be negatively related to monitoring as a whole. Thus, the following hypothesis is arrived at.

H₃: Trust and monitoring are negatively related

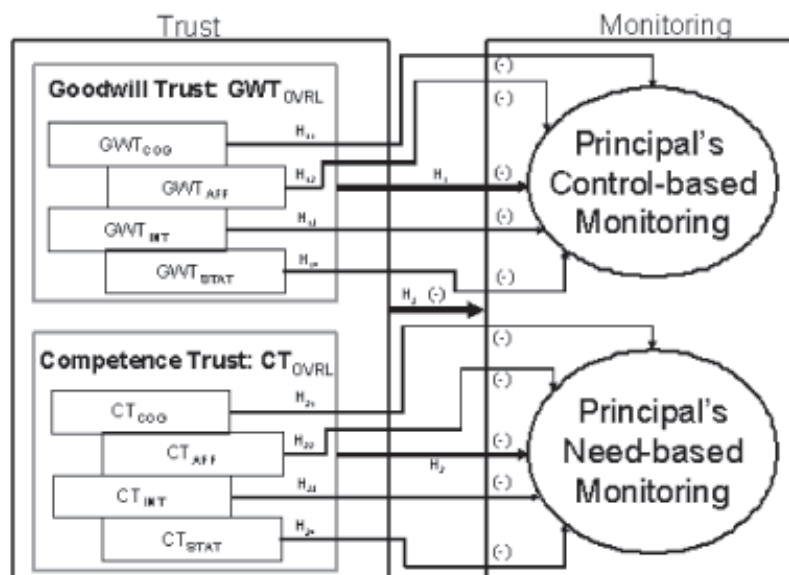


Figure 1: Research model - The complete model of the current research

4. Methodology

Because the research was to study both intended and actual monitoring, it required capturing behaviour for different levels of trust with no other disturbances. It was reckoned that removal of noise in a real-life situation was close to impossible. This meant that the study should capture trust and monitoring in similar contexts and scenarios across the research sample, each respondent having the liberty of viewing the scenario, as she/he felt fit. Keeping these in mind, an experimental approach was chosen to test the proposed hypotheses. It was perceived that conscious and careful effort to create high and low scenarios of trust would enable the researcher to analyse data along a wider canvass than if the researcher were to depend on a real-life scenario where such contexts would be beyond the researcher's control.

5. Simulation in Management Research

Research has proven that students' behaviour in a business simulation game is akin to that of managers in real business context and therefore the game can be used as a laboratory to study decision-making process (Remus, 1978, p. 829). However, scholars have been cautious that using simulation for research raises the questions of generalisability, control and precision of evaluating behaviours and the degree of realism in the game (McGrath quoted in Keys & Wolfe, 1990, p. 323). Moreover, simulations being a highly simplified context compared to real-life situations, decision-making in simulations are completely void of the social context of decision-making, especially when students are used for research purposes through gaming (Hogarth & Makridakis, 1981). Nevertheless, some scholars are convinced that because MBA students aspire to be managers, they reflect managerial behaviour in simulations. This enhances opportunities to use MBAs as subjects in game laboratories for research (Cohen & Rhenman, 1961; Lant & Montgomery, 1992).

Notwithstanding the differences in the background between the managers and the students, in game context students learn appropriate strategies for the game, after which students and executives perform similarly (Khera & Bensen, 1970). Andaleeb (1995, 1996), studying channel relationships, found strong similarities in findings from the student sample and managerial sample, which validates the usage of students as surrogate for managers.

Keys and Wolfe (1990) emphasise the utility of simulations as an immensely useful tool for research purposes. Simulations offer immense advantage in research. Decision-making can be interrupted, dissected and reconstructed, enabling researching of the decision-making process thoroughly (Babb, Leslie & Slyke, 1966). Other advantages include the following: (a) more precise measurements of behaviour possible than in field research (b) researcher's comfort with the research environment, enabling control over the causal factors (c) greater excitement of behaviour than in real life due to collapsing of time, leading to better measurement of outcomes (d) possibility of repetition facilitating laboratory type of research works and (e) integrated simulations that enable study of ill-structured judgmental type of problems arising in uncertain environments (Keys & Wolfe, 1990).

Laboratory research has been extensively carried out earlier in the field of marketing channels and inter-organisational relationship (Andaleeb, 1995, 1996; Dwyer, 1980; Dwyer & Walker, 1981; Gundlach & Achrol, 1993; Gundlach, Achrol & Mentzer 1995; Gundlach & Cadotte, 1994; McAlister, Bazerman & Fader, 1986; Schurr & Ozanne, 1985; Srivastava, Chakravarti & Rapoport, 2000; Stern, Sternthal & Craig, 1973;). The choice of experimental study as the method is stated to be mainly due to the degree of control it affords over the exogenous variables from influencing the studied relationship.

Scholars have used laboratory methodology in studying marketing channel relationships extensively. Some of the important phenomena studied have been inter-organisational conflict (Stern et al., 1973), studied channel-member satisfaction (Dwyer, 1980), bargaining process and outcomes under different levels of power symmetry (Dwyer & Walker, 1981), buyer behaviour in relation to the perceived seller's trustworthiness and bargaining toughness (Schurr & Ozanne, 1985), power and goal setting (McAlister ., 1986), relationship amongst governance, contractual procedures and relational procedures in manufacturer-distributor setting (Gundlach & Achrol, 1993), manufacturer-distributor relationship (Gundlach & Cadotte, 1994), moderating role of trust in dependence relations and satisfaction and commitment in marketing channels (Andaleeb, 1995, 1996) exchange interdependence (Gundlach & Cadotte), structure of commitment between exchange partners (Gundlach et al., 1995) and negotiations on price fixation in marketing channels (Srivastava et al., 2000). Such frequent reliance on simulations and laboratory research highlights the validity of simulations and experiment as a rigorous methodology in channel management context.

6. Sample Selection

The study attempted to capture data from a mixed set of executives and potential executives. Hence, the sample chosen included a set of 68 students in their final year MBA who had opted to study the course Distribution management in a premier business school in India. This sample set was suitable for the study because they were learning the principal-agent

relationship in the context of distribution channel management and therefore they could relate the context in which the research was carried out with ease and respond to situations and questionnaires with much greater degree of comfort than other students. In addition, a sample of 34 executives in middle management and senior management levels from four types of organisations in India - food sector, consumer durable sector, commercial automobile sector and petrochemicals sector - were considered for participating in this study. All the organisations had pan-national presence and some were also engaged in exports. The organisations were chosen based on the understanding that the executives who took part in the study had exposure to principal-agent relationship in their work experience. The number of executives who took part in the study was limited by the organisations' willingness to spare them for the time they would be engaged in responding to the researcher's requirements. Thus, the total number of respondents was 102. Of the executives, one dropped out midway through the survey and hence certain data analyses were confined to 33 executives and hence 101 total samples.

7. Data Collection

Data pertaining to trust was captured through questionnaires. Data pertaining to actual monitoring behaviour was captured through the respondents' allocation of the field personnel's time across different monitoring activities in a simulation game titled *Fantasia Simulation* that engaged them in a complex decision-making process in a distribution context. This simulation was a part of the curriculum and hence their seriousness was ensured by the corresponding weight age assigned in the course for the game. Each student performed the role of a country manager in a fictional country handling a fictional product. The game provided them the goals of (a) maximising their bottom-line profits and (b) maximising their distributors' satisfaction. This required them to take as many as over 130 decisions in each period, such as production planning, target setting, pricing, below-the-line sales promotions, deployment of sales personnel, allocation of sales personnel's time across various monitoring activities across four distributors and so forth. This was found to represent a scenario that was close to reality. The game was played over a period of 4 months during the semester. Once the students gathered sufficient comfort with the game, four different scenarios were created - one each for the four distributors - that typified high or low trustworthiness, either goodwill trust or competence trust. The scenarios were created through caselets to which the company's corporate headquarters located abroad sought attention of the country manager and his/her response to a questionnaire. This questionnaire captured their trust level in the concerned distributor. The allocation of the field personnel's time captured their actual monitoring behaviour in the respective scenario. The students were taking part in the game as a part of their credit requirement in the course and thus their behaviour was driven by their given goals, thus precluding any possibility of suspicion about the research being carried out. Hence, the data collected could be regarded as closely representative of real-world behaviour. The executives did not play the game; instead, they were given the four scenarios clearly explaining the distribution context. They were given adequate time to respond to the questionnaires and also to allocate the field personnel's time, which captured their actual, monitoring behaviour.

8. Measures of Trust

Two sets of questionnaires were developed, one pertaining to goodwill trust and another pertaining to competence trust.

8.1 Goodwill trust

The questionnaire to capture goodwill trust was based on the Organisational Trust Inventory of Cummings & Bromiley (1996). Their work pertained to inter-organisational trust in terms of (a) keeping negotiated commitments, (b) negotiating honestly and (c) avoiding taking excessive advantage by the other over oneself. These three aspects covered comprehensively the dimension of *goodwill trust* in the current research. Cummings and Bromiley had established the internal consistency of the 81-item 7-point Likert scale-based questionnaire that broke down the construct into its elements of *cognition*, *affect* and *intended behaviour*. In addition, certain items covered the respondent's statement of (actual) behaviour. With careful examination, the scale was reduced to a 67-item scale, after dropping 14 items that were relevant only in the context of negotiation and not in the context of distribution management. The reduced questionnaire used in this current research had high reliability based on Cronbach's alpha (Table 1).

Each of the four elements of goodwill trust that were captured through the 67-item questionnaires are explained below. The internal consistency of the scales capturing them was measured through Cronbach's alpha. An alpha magnitude of 0.6 was considered acceptable based on citing of scholars such as Davis and Nunnally in Peterson (1994, p. 381).

Cognitive Goodwill Trust (GWT_{COG}) - This was captured through a measure with 27-item Likert scale, containing statements such as 'I think the distributor does not mislead my company', 'I think commitments made to my company by this distributor will be honoured', 'I think this distributor will not take advantage of my company'. Thirteen of the items were reverse coded because they were expressions of distrust. This measure had a high scale-validity (Cronbach's $\alpha = 0.944$; standard error [SE] = 0.006).

Affective Goodwill Trust (GWT_{AFF}) - This was captured through a measure with 12-item Likert scale, containing statements such as 'I feel that this distributor takes advantage of my company', 'I feel that this distributor deals with my company honestly'. Seven of the items were reverse coded because they were expressions of distrust. This measure had a high scale-validity (Cronbach's $\alpha = 0.885$; SE = 0.012).

Intended Goodwill Trusting Behaviour (GWT_{INT}) - This was captured through a measure with 14-item Likert scale, containing statements such as 'I intend to share information with this distributor', 'I intend to monitor this distributor closely'. Nine of the items were reverse coded because they were expressions of distrust. This measure had a high scale-validity (Cronbach's $\alpha = 0.889$; SE = 0.012).

Stated Goodwill Trusting Behaviour (GWT_{STAT}) - This was captured through a measure with 13-item Likert scale, containing statements such as 'I watch for misleading information from this distributor'; 'I deal cautiously with this distributor...' The measure had high scale-validity (Cronbach's $\alpha = 0.906$; SE = 0.010).

Thus, the scale used for measuring goodwill trust - both in its sub-constructs and overall - was of high reliability. Besides, the average overall goodwill trust was checked for its correlation with a global item - this distributor is honest - to check whether the scales indeed measured goodwill trust.

Table 1: Scale-validity of GWT measures

N = 101

	GWT_{COG}	GWT_{AFF}	T_{INT}	GWT_{STAT}	GWT_{OVRL}
No. of Items	27	13	14	13	67
Cronbach's α	0.944	0.885	0.889	0.906	0.958
SE of α	0.006	0.012	0.012	0.010	0.004

8.2 Competence trust

Developing a composite scale for competence trust was more laborious than in the case of goodwill trust. Unlike in the case of goodwill trust, no composite scale was readily available for competence trust, necessitating creation of a composite measure through assembling the scales available in the literature. From the past studies involving competence trust, two items were taken from Smith and Barclay (1997); six from Hoy and Moran (2000); two from Nooteboom, Berger and Noorderhaven (1997); one from Nielson (1998); two from Selnes (1998); three from Doney and Cannon (1997); four from Cummings and Bromiley (1996); three from Moorman et al. (1992); one each from Suh and Kwon (2005) and Neveu (2005). Together, these formed a 25-item composite scale.

Classifying the items under cognition, affect, intended behaviour and stated actual behaviour was achieved through seeking expert opinion amongst 14 faculty members of the business school where the researcher worked and seven top-ranking students. Together, these 21 respondents' opinions enabled classification of the items under the four sub-constructs. The final step was carried out after administering the research questionnaire to the students and executives, the main respondents in the current research. At this stage, the responses were run through the software *Statistical Package for Social Sciences (SPSS) Ver.13* for the reliability of each sub-construct heuristically. Those items that were inconsistent with the measure of the sub-construct were removed. The reduced composite scale, thus, had 20 items (Table 4.2).

A global scale - this distributor is reliable - was considered amongst the lot to check correlation between the overall competence trust (CT_{OVRL}) and the global competence trust to see whether the scales did actually measure competence trust. The scales used for measuring competence trust - its sub-constructs and overall - were of high reliability and hence its use in the current research was justified (Table 2).

Table 2: Scale-validity of CT measures

N = 101

	CT _{COG}	CT _{AFF}	CT _{INT}	CT _{STAT}	CT _{OVRL}
No. of Items	5	9	3	3	20
Cronbach's α	0.880	0.925	0.664	0.839	0.961
SE of α	0.014	0.009	0.046	0.022	0.005

The data collection method of each of the four elements of competence trust that were captured through the 20-item questionnaire is explained below.

Cognitive Competence Trust (CT_{COG}) - This was captured through a measure with 5-item Likert scale, containing statements such as '*I think the distributor really knows the market*', '*I think this distributor is not an expert*', '*I think this distributor is knowledgeable*'. One of the items was reverse coded because it was an expression of distrust. This measure had a high scale-validity (Cronbach's $\alpha = 0.880$; SE = 0.014).

Affective Competence Trust (CT_{AFF}) - This was captured through a measure, which started with a 12-item Likert scale, containing statements such as '*I can rely on this distributor*', '*I feel that this distributor is one of the most important distributors for my company*'. Three items were dropped from the list due to inconsistency with the set of measure and thus this measure eventually had nine items. Two of the items were reverse coded because they were expressions of distrust. This measure had a high scale-validity (Cronbach's $\alpha = 0.925$; SE = 0.009).

Intended Competence Trusting Behaviour (CT_{INT}) - This was captured through a measure that started with a 4-item Likert scale, containing statements such as '*If I started my own business, I would not appoint this distributor as my distributor*'; '*I intend to check on the effectiveness of the distribution efforts of this distributor*'. One of the items was dropped due to inconsistency with the measure. The ultimate 3-item measure had a scale-validity that is higher than the acceptable value of 0.6 (Cronbach's $\alpha = 0.664$; SE = 0.046).

Stated Competence Trusting Behaviour (CT_{STAT}) - This was captured through a measure with 3-item Likert scale. The measure had high scale-validity (Cronbach's $\alpha = 0.839$; SE = 0.022).

In addition, the Pearson's coefficient of correlation for overall competence trust vis-à-vis the global competence trust item was 0.893 ($p < 0.01$). The global item was 'The distributor is reliable'. This confirmed that the scales together indeed measure competence trust.

Finally, the overall scale-validity of the composite trust measure - both goodwill trust and competence trust together - returned a Cronbach's alpha of 0.907, indicating a very high internal validity of the trust measure as a whole.

9. Measures of Monitoring

Measures of monitoring were developed based on the context in which the measurement was to be made. The common context for the executives and the students was the simulated environment of *Fantasia*. One of the important decisions to be made by the respondents in this environment was allocation of field force time across 17 different monitoring activities. These activities were incorporated in the simulation based on the opinions of the experts in the industry who had spent over 10 years in sales and distribution management. Although consistency of these activities with the simulated environment was a pre-requisite, the validity of the scale was an important consideration. To ensure this, *the concepts of need-based monitoring and control-based monitoring* were explained in simple term to the sophomores of the 2-year postgraduate programme in management. Following this, the 17 items were given to them, each item clearly explained in the handout. Subsequently, they were asked to classify the 17 items under the two heads of monitoring. In addition to the sophomores, eight experts in the academic area of management were requested to express their classification of the items under the two heads. Based on the frequencies the items were categorised either as need-based monitoring or as control-based monitoring. The decisions taken by the respondents in the simulated environment of *Fantasia* were of different ranges - in terms of weeks, minimum and maximum - within which monitoring was to be decided, and thus the items were incomparable. Hence, all the items were normalised in the range of 0 to 1 to permit additivity.

In addition, the data captured through the questionnaire on trust contained items expressing intended trusting behaviour. Of these, those items that related to monitoring were considered *intended monitoring* of the respective type, namely need-based and control-based.

9.1 Need-based Monitoring

Six items were classified as need-based monitoring. Need-based monitoring, as explained earlier, involves the principal's tracking of the agent's needs, his developing a tacit awareness of the agent's needs - even when the agent does not express them - and the knowledge and willingness to respond appropriately (McAllister, 1995, p. 31). That is, the principal collects data about the agent with a view to helping him (a) to perform better, (b) improve his competencies and (c) safeguard his interests against damages that can be caused by the behaviour of others - be it the principal's other agents or the competitors' agents.

The items included in the *Fantasia Distribution* simulation, which were categorised by the experts and the sophomores as need-based monitoring, are shown below:

- Training interim salesman on appointment
- Retraining interim salesman
- Distributor salesman training
- Market development
- Field sSurvey to check transgression by other distributors
- Planning distributor's work

This measure was used by the respondents in this research as a part of the simulated environment of *Fantasia*. The respondents were given the lower and upper limits of time (in weeks) to decide their allocation of time for each of these activities. These data were used in their original form as decided by the respondents for evaluating the scale-validity of this measure. The average normalised time allocated across the activities was taken as the score for need-based monitoring and this was correlated with each element of competence trust as also with the overall competence trust. The Cronbach's alpha for the normalised data was found to be 0.577 (close to the desired 0.6, and SE = 0.034), confirming the validity of the scale to measure need-based monitoring.

9.2 Control-based monitoring

As explained earlier, control-based monitoring concerns the principal's taking steps to manage uncertainty in his dealing with the agent (McAllister, 1995, p. 30). Such a monitoring is done by the principal to ensure that the agent (a) acts in a manner committed and (b) does not act in a manner that can cause damage to the principal and/or the joint venture. In the language of agency theory, one can say that control-based monitoring is aimed at the agent's opportunism and shirking.

The experts and the sophomores as control-based monitoring classified 11 items that were used in the *Fantasia* Distribution simulation. They were as follows:

- Checking van route claims
- Checking distributor's retail database
- Checking distributor's records for stock holding
- Checking invoices for area transgression by distributors
- Field survey for regular coverage
- Field survey for trade scheme
- Checking records for despatch of stocks to market
- Checking records for trade scheme implementation
- Field survey for correct pricing
- Field survey for field hygiene
- Checking records of damaged/expired stocks

Based on the decisions taken by the students and the executives in the simulated environment of *Fantasia*, Cronbach's alpha for the measure of control-based monitoring was 0.723 (SE = 0.021), well above the desired level of 0.6, confirming the scale-validity for the measure. The average normalised time across the six activities was taken as the score for control-based monitoring and this was correlated with each element of goodwill trust as also with the overall goodwill trust.

10. Experimental Manipulation

The respondents were presented with four different scenarios, each describing an event of reasonable importance pertaining to a specific distributor. One was a news item that reported a sting operation, which unearthed fraudulent practices by the distributor, keeping the company's salesman in complete dark (evoking *ex ante* low goodwill trust). The second was a news report about a distributor being honoured with the professional efficiency award (evoking *ex ante* high competence trust). The third was a news item, reporting on the values, virtues and integrity of a distributor supported by an interview item of the distributor (evoking *ex ante* high goodwill trust). The last one was a written complaint by the retailers' association against a distributor for incompetent handling of distribution, reinforced by a news paper report about the complaint (evoking *ex ante* low competence trust). The students were presented with these scenarios in a phased manner, allowing them time to focus on decision-making. The executives were given scenarios one after another, each followed by the questionnaire and a table seeking their time allocation for monitoring activities.

11. Analytical Tool

In as much as this research focused only on the existence of relationship between the degrees of the two trusts and the degrees of two monitoring, the appropriate measure is the one that can provide the existence of linear association between the variable sets. Any other measure that could provide a non-linear relationship between them implicitly meant that there was another factor that moderated the relationship between the variables and hence would not help in isolating the relationship between the two variables exclusively. Therefore, the analytical tool used in this research for evaluating all the relationships posited was Karl Pearson's correlation coefficient. For the purpose of this research, 'high' and 'low' were substituted with 'strong' and 'weak' supports to the hypothesis. The classifications of correlations' strength are summarised below:

r-value	Strength
-0.001 to -0.199	Weak support
-0.200 to -0.299	Moderate support
-0.300 to -1.000	Strong support

These redefinitions - subject to statistical significance - are justified because the hypothesised

relationships between trust and monitoring are negative. Therefore, the entire range of negative correlation rejects the null hypothesis. Correlations negative but close to zero - provided they were statistically significant - were termed as 'weak' support. Those negative correlations that are statistically insignificant ($r < 0$ and $p > 0.05$) are not regarded as offering any support to the hypothesised relationship. These correlations could have been accidental. Statistically significant correlations between -0.200 and -0.299 appear somewhat strong and still were termed as 'moderate' support. Significant correlations of -0.300 and below were termed 'strong' support because they indicated magnitudes that could not have been accidental.

An important methodological issue is that although the sampling method was non-probabilistic, significance level for each of the r -values in the relationship between trust and monitoring was considered with a view to ensuring that the correlation was not accidental and was actually significant for making any meaningful conclusion. Incidentally, as explained above, negative correlations around zero actually returned very high p -values, confirming that such correlations were indeed weak and were not worthy of regarding as supporting the hypotheses.

12. Data Analysis and Findings

12.1 Goodwill trust

High-trust and low-trust scenarios created were correspondingly perceived by the respondents. The average goodwill trust scores for high-trust agents was 5.066 and 4.471 for the executives and students, respectively, whereas for the low-trust agents they were 3.636 and 3.498, respectively. Therefore, there is some discernible consistency amongst respondents in their responses.

Between the executives group and students group, too, certain distinctive patterns were seen. Specifically, the executives rated high-trust scenarios higher than the students group. Sixty-four of the 80 items confirm this pattern where executives tend to trust high-trust agents more than the students do. However, when it pertained to low-trust scenarios, the executives were much less distrusting compared with the students. The situation reversed in pattern and 52 items showed that students rated the low-trust agents lower than what the executives had done.

12.2 Competence trust

The data pertaining to competence trust, too, shows a clearly discernible dichotomy between high-trust scenario - perceived so - and low-trust scenario - perceived as low-trust situation. The average trust scores for high-trust scenario were 5.510 and 4.595 amongst the executives and the students, respectively. The average trust scores for the low-trust scenarios were 2.957 and 3.949 amongst the executives and the students, respectively. It was observed that the executives made a clear-cut distinction between the two scenarios much more sharply than the students. The executives trust score of 2.957

for the low-trust scenario is an indication of distrust about the competence of the agent, whereas the students' score for the same 3.949 is an expression of somewhat high, though lower than the score for the high-trust scenario. This aspect itself is worth pursuing in a stand-alone research.

The two types of scenarios - namely, high-trust and low-trust - were first checked for the veracity of the terms used. The 7-point Likert scale used implied that a score of 1 represented complete distrust and a score of 7 denoted complete trust. The middle value of 4 was considered neutral, implying neither trust nor distrust. The mean trust scores in high and low scenarios were tested for their significant difference from the neutral score of 4. The composite mean trust score for the high-trust scenarios showed a value of 4.719 ($p < 0.01$), which is a high-trust score. The composite mean trust score for the low-trust scenarios returned a value of 3.706 ($p < 0.01$), a low-trust score. Therefore, it is concluded that at the aggregate level, the two scenarios created to generate high/low trust in the respondents worked in accordance with the expectations. Thus, Table 3 lends support to the intended effect of creation of two scenarios of high trust and low trust. It is noticed that the mean trust scores for high-trust scenario are consistently higher than all low-trust scores, respectively, implying that the respondents did perceive the high and low trust as was intended in the study. This enables better comparison of responses across a larger range of trust, providing the chance to make clearer distinction in behaviour.

Table 3: Mean trust scores across scenarios tested for mean value of 4.0

(High > 4 | Low < 4)

Type of Trust	CT		GWT		Overall Trust	
	High	Low	High	Low	High	Low
Cognition	5.198 $p < 0.01$	3.579 $p < 0.01$	4.895 $p < 0.01$	4.028 $p = 0.759$	4.999 $p < 0.01$	3.892 $p = 0.106$
Affect	5.090 $p < 0.01$	3.604 $p < 0.01$	4.660 $p < 0.01$	3.976 $p = 0.796$	4.864 $p < 0.01$	3.789 $p < 0.01$
Intended Behaviour	3.990 $p = 0.906$	3.255 $p < 0.01$	3.797 $p < 0.01$	3.599 $p < 0.01$	3.808 $p < 0.01$	3.322 $p < 0.01$
Stated Behaviour	5.288 $p < 0.01$	3.739 $p < 0.05$	3.947 $p < 0.01$	3.658 $p < 0.01$	4.577 $p < 0.01$	3.544 $p < 0.01$
Overall	5.037 $p < 0.01$	3.564 $p < 0.01$	4.451 $p < 0.01$	3.856 $p = 0.097$	4.719 $p < 0.01$	3.706 $p < 0.01$

The specific aberrations are found in intended behaviour in competence trust (high) and goodwill trust (low). Across types of trust, low goodwill trust seems to have witnessed lack of clear dichotomisation. However, in all, the effort to achieve high-low trust levels seems to have been predominantly successful (80% of the cases).

Table 4 shows that all sub-constructs of trust - both goodwill and competence trust together - were positively and significantly correlated amongst themselves. Noteworthy amongst these correlations is the low r -value witnessed by intended trusting behaviour. When this phenomenon in Table 4 is read in conjunction with Table 3, it is possible to surmise that the respondents were somewhat unclear about how to act in response to the perceived trustworthiness of the agent, a feature consistently seen in the case of intended trusting behaviour in both the tables. Alternatively, whether this could have been due to any problem posed by the scale used for this construct is worth a separate study.

Table 4: Correlations amongst sub-constructs of trust

All Respondents, Combined Scenario; N = 406

	Affective Trust	Intended Trusting Behaviour	Overall Trust
Cognitive Trust	0.915 $p < 0.01$	0.415 $p < 0.01$	0.906 $p < 0.01$
Affective Trust		0.457 $p < 0.01$	0.921 $p < 0.01$
Intended Trusting Behaviour			0.674 $p < 0.01$

12.3 Monitoring

The overall monitoring scores are 0.734 and 0.274 in the case of high-trust scenario, which increase to 0.816 and 0.335, respectively, when the scenario turns to low trust. This is in line with the basic contention of the current research that trust and monitoring are negatively related.

Table 5: Summary of monitoring scores

Scale: 0 - Low; 1 - High

Target Agent	MN			MC			Overall Monitoring		
	Students	Executives	Both	Students	Executives	Both	Students	Executives	Both
High Trust									
Intended Monitoring	0.768	0.654	0.733	0.778	0.645	0.735	0.773	0.650	0.734
Actual Monitoring	0.333	0.271	0.302	0.260	0.218	0.246	0.297	0.245	0.274
Low Trust									

Target Agent	MN			MC			Overall Monitoring		
	Students	Executives	Both	Students	Executives	Both	Students	Executives	Both
Intended Monitoring	0.588	0.944	0.706	0.932	0.909	0.925	0.760	0.927	0.816
Actual Monitoring	0.343	0.391	0.367	0.222	0.385	0.304	0.283	0.388	0.335
All Agents									
Intended Monitoring	0.676	0.799	0.718	0.855	0.776	0.830	0.767	0.788	0.775
Actual Monitoring	0.338	0.331	0.336	0.241	0.301	0.260	0.290	0.316	0.305

An interesting aspect observable in Table 5 is the reduction in monitoring score as one moves from the intended to actual monitoring. This is in line with the intuitive understanding that out of the intended behaviour, only a part is carried out in action and there is always a 'leakage' between intended behaviour and actually observed behaviour. In the specific context of monitoring in the current research, this could have been compounded by the fact that the aggregate monitoring - allocation of sales personnel's time - is limited by 52 weeks in a year and hence an all-maximum monitoring could not be achieved though the respondents might have indicated high monitoring in their intention. However, in the case of need-based monitoring, the intended monitoring scores amongst the student-respondents show a counter-intuitive phenomenon: the monitoring score is high for high-trust scenario and low for low-trust scenario. In all other cases, the trend is as per the *a priori* understanding, namely the combination of high monitoring score in low-trust scenario and low monitoring score in high-trust scenario. A probable explanation for this phenomenon is that the student respondents were relatively unmindful of low competence trust in responding with intended monitoring, whereas in other cases they were more cautious. In contrast, the executives' response was in accordance with the expected behaviour. Students seem to have been less inclined to act on limited information in the case of low competence trust - indicating need-based monitoring score of 0.588 for the low-trust agent as against 0.768 for the high-trust agent - whereas executives seem to have responded in a manner that is consistent with the intuitive understanding, showing higher monitoring score in low-trust scenario and lower monitoring score in high-trust scenario. Such counter-intuitive response by the students may, perhaps, be due to their lack of live work experience in handling channel partners. Because the sample size of the students was double that of the executives, the effect of this phenomenon was seen in the combined sample as well. This, however, does not reject the data nor does it nullify the methodology. It merely indicates a counter-intuitive observation in the data, which probably deserves further research.

13. Goodwill Trust Versus Control-based Monitoring

The relationship between trust and monitoring was calculated through Karl Pearson's coefficient of correlation. Because the current research focused on the existence and direction of the relationship and not the causality, use of Pearson's coefficient of correlation (r -value) was considered appropriate. Correlations between each type of trust and its components on the one hand and the postulated type of monitoring were calculated to test the proposed hypotheses. Because the research postulated negative relationship between trust and monitoring, only negative coefficients of correlation were regarded as relevant. The summary of correlations between *goodwill trust* and control-based monitoring are shown in Table 6. It can be seen that there was predominant support to the postulated negative relationship between goodwill trust and control-based monitoring at the intended level. This supports H1, H11, H12, H13 and H14 in terms of intended control-based monitoring, where all the cases witnessed $r < 0$, with $p < 0.01$ (column c).

Table 6: Correlations[#] between GWT and MC

Executives and Students (N = 101^{\$})

Type of Trust	Intended Control-based Monitoring			Type of Trust	Actual Control-based Monitoring		
	High Trust (a)	Low Trust (b)	All Trust (c)		High Trust (d)	Low Trust (e)	All Trust (f)
GWT _{COG}	-0.039 $p = 0.349$	-0.309 $p < 0.01$	-0.210 $p < 0.01$	GWT _{COG}	0.121	0.001	0.002
GWT _{AFF}	-0.0001 $p = 0.500$	-0.298 $p < 0.01$	-0.192 $p < 0.01$	GWT _{AFF}	0.118	-0.011 $p = 0.458$	0.010
GWT _{STAT}	-0.786 $p < 0.01$	-0.914 $p < 0.01$	-0.873 $p < 0.01$	GWT _{INT}	0.109	0.412	0.291
GWT _{OVRL}	-0.519 $p < 0.01$	-0.734 $p < 0.01$	-0.636 $p < 0.01$	GWT _{STAT}	0.095	0.374	0.253
M _{C-ACTL}	0.183	0.429	0.336	GWT _{OVRL}	0.152	0.221	0.144

Pearson's coefficient of correlation.

\$ One executive dropped out mid-way, after completing half the set of questionnaires.

(1) Significant negative correlations between trust and monitoring are darkened.

(2) M_{C-ACTL} denotes actual control-based monitoring. The entries against it denote the correlation between the actual monitoring and the intended monitoring. Negative score against M_{C-ACTL} implies that the respondents' intention to monitor did not reflect in the same pattern in their actual monitoring and, in fact, the two types of monitoring varied in the opposite directions.

Such strong support for these hypotheses confirms our postulate that goodwill trust and control-based monitoring are negatively related, at the intended monitoring level. However, Table 6 also shows that the hypotheses H_1 , H_{11} , H_{12} , H_{13} and H_{14} did not find any support whatsoever in terms of actual control-based monitoring behaviour (columns d, e and f). In this context, all correlations were surprisingly found to be positive - barring one cell which is negative but insignificant with $p > 0.05$. That is, at the level of actual monitoring behaviour, there was no negative relationship between goodwill trust and control-based monitoring across all respondents. This means, although the respondent expressed a willingness to act in the postulated manner in response to perceived trust levels, their actual monitoring efforts varied in the opposite direction across the levels of trust.

In the case of different trust scenarios, low goodwill trust (column b) seems to have evoked more significant response than high goodwill trust (column a) in terms of intended control-based monitoring behaviour. Table 6 shows that in the case of high trust (column a), only GWT_{STAT} ($r = -0.786$, $p < 0.01$) and GWT_{OVR} ($r = -0.519$, $p < 0.01$) are significantly and negatively related to MC. However, in the case of low trust (column b), all the four GWT are found to have significant and negative correlations vis-à-vis MC. A curious and inexplicable phenomenon is that whereas GWT_{AFF} has the lowest magnitude of significant negative correlation vis-à-vis intended M_C (column b, $r = -0.298$) amongst all in that column, GWT_{AFF} is the only aspect that had a negative - though extremely insignificant - correlation vis-à-vis actual M_C (column e, $r = -0.011$). An important finding is that the magnitudes of correlation in the case of low trust (column b) are consistently greater than those in the case of high trust (column a). That is, column (a) displays a phenomenon of insignificant relationship between high trust and monitoring. This possibly explains that respondents are willing to act readily in exercising caution but not in putting down their guard.

Table 7: Correlations between GWT and M_C

Executives (N = 33)

Type of Trust	Intended Control-based Monitoring			Type of Trust	Actual Control-based Monitoring		
	High Trust (a)	Low Trust (b)	All Trust (c)		High Trust (d)	Low Trust (e)	All Trust (f)
GWT_{COG}	-0.292 $p < 0.05$	-0.581 $p < 0.01$	-0.705 $p < 0.01$	GWT_{COG}	-0.069 $p = 0.352$	-0.233 $p = 0.096$	-0.359 $p < 0.01$
GWT_{AFF}	-0.259 $p = 0.073$	-0.557 $p < 0.01$	-0.681 $p < 0.01$	GWT_{AFF}	-0.213 $p = 0.117$	-0.100 $p = 0.289$	-0.267 $p < 0.05$
GWT_{STAT}	-0.751 $p < 0.01$	-0.834 $p < 0.01$	-0.884 $p < 0.01$	GWT_{INT}	-0.366 $p < 0.05$	-0.242 $p = 0.087$	-0.368 $p < 0.01$
GWT_{OVR}	-0.655 $p < 0.01$	-0.686 $p < 0.01$	-0.823 $p < 0.01$	GWT_{STAT}	-0.317 $p < 0.05$	0.020	-0.245 $p < 0.05$
MC-ACTL	0.386 $p < 0.05$	0.105 $p = 0.281$	0.309 $p < 0.01$	GWT_{OVR}	-0.272 $p = 0.063$	-0.184 $p = 0.152$	-0.347 $p < 0.01$

Table 7 relates to the responses of the executives sample. The data show that there was predominant support to the postulated negative relationship between goodwill trust and intended control-based monitoring from this sample. Overall, across all trust scenarios, the executives supported the postulated negative relationship between goodwill trust and actual control-based monitoring in their allocation of time across monitoring activities in the simulated context. The goodwill trust predominantly had significantly negative correlation vis-à-vis intended M_C (columns a, b and c). Specifically, barring GWT_{AFF} , the rest all had significantly negative correlation vis-à-vis intended MC consistently. Although GWT_{AFF} had a negative correlation vis-à-vis intended M_C in all contexts, the correlation in high trust was not significant enough ($r = -0.259$, $p=0.073$) to be accepted for supporting our hypothesised relationship between the variables. The magnitudes of correlation across the types of trusts vis-à-vis intended M_C were higher in low-trust context (column b) than in high-trust context (column a), implying that the executives are *willing* to act readily in exercising caution but not in putting down their guard.

In the case of actual M_C , executives' decisions showed some support to the postulated negative relationship between trust and monitoring. This was consistently and significantly negative in *all trust* scenarios (column f) where the correlations were negative and significant at 0.05 level. High-trust scenario witnessed moderate support to the hypothesised relationship, with GWT_{INT} ($r = -0.366$, $p<0.05$) and GWT_{STAT} ($r = -0.317$, $p<0.05$) showing significantly negative relationships, GWT_{COG} , GWT_{AFF} and GWT_{OVRL} did not show such support, although the correlations were negative, but the p-values were more than 0.05 (column d). The low-trust context in the actual MC did not show any support for the postulated relationship because the correlations were either insignificantly negative, with p-values more than 0.05 or positive (column e).

The relationship between goodwill trust and control-based monitoring was tested for the student sample (Table 8). The student sample showed strong support to the postulated negative relationship between GWT and M_C in all cases of intended monitoring (columns a, b and c). Barring GWT_{STAT} , the magnitudes of r-values in low-trust context are higher than those in high-trust context (columns a and b), implying that the students are willing to act readily in exercising caution but not in putting down their guard, although their statements (GWT_{STAT}) seem to be somewhat contrary to this.

The actual M_C by the students had no support at all to any of the postulated negative relationships vis-à-vis trust. Even those elements that showed negative r-value had very low significance, with p-values being above 0.15, rendering the correlations irrelevant (columns d, e and f). The complete volte-face from intended to actual monitoring behaviour by the student sample is somewhat puzzling.

Table 8: Correlations between GWT and M_c

Students (N = 68)

Type of Trust	Intended Control-based Monitoring			Type of Trust	Actual Control-based Monitoring		
	High Trust (a)	Low Trust (b)	All Trust (c)		High Trust (d)	Low Trust (e)	All Trust (f)
GWT_{COG}	-0.293 $p < 0.01$	-0.581 $p < 0.01$	-0.593 $p < 0.01$	GWT_{COG}	0.014	-0.097 $p = 0.216$	0.055
GWT_{AFF}	-0.329 $p < 0.01$	-0.615 $p < 0.01$	-0.599 $p < 0.01$	GWT_{AFF}	-0.019 $p = 0.439$	-0.120 $p = 0.165$	0.021
GWT_{STAT}	-0.837 $p < 0.01$	-0.644 $p < 0.01$	-0.804 $p < 0.01$	GWT_{INT}	0.059	-0.028 $p = 0.412$	0.106
GWT_{OVRL}	-0.629 $p < 0.01$	-0.704 $p < 0.01$	-0.748 $p < 0.01$	GWT_{STAT}	0.183	0.008	0.162
M_{C-ACTL}	-0.049	0.088 $p = 0.238$	0.087	GWT_{OVRL}	0.056	-0.087 $p = 0.240$	0.078

14. Competence Trust Versus Need-based Monitoring

Data analysis for the relationship between competence trust and need-based monitoring for the combined sample shows a clearer picture in support of the hypotheses (Table 9). The combined scenario witnessed significant support for the postulated negative relationship between the variables both in the case of intended behaviour and in the case of actual behaviour for all elements of trust (columns c and f). This implies that hypotheses H_2 , H_{21} , H_{22} , H_{23} and H_{24} received significant support from the intended as well as actual M_N amongst the combined sample. The intended need-based monitoring was not in the order as expected in the case of high-trust scenario (column a), symbolising a possible unwillingness on the part of the respondents to drop guard. The intended need-based monitoring was significantly in support of the postulated negative relationship with competence trust when the trust level was low except in the case of CT_{STAT} ($r = -0.069$, $p = 0.245$). Thus, the postulated relationship received supports in correlations trust had vis-à-vis intended MN in low-trust context such as CT_{COG} ($r = -0.277$, $p < 0.01$), CT_{AFF} ($r = -0.223$, $p < 0.05$), and CT_{OVRL} ($r = 0.252$, $p < 0.01$). The two trust scenarios did not receive significant support from the actual monitoring behaviour (columns d and e), although the combined scenario received significant support (column f). Although CT_{INT} had a negative correlation vis-à-vis actual MN in the all trust combined scenarios (column f), the same was not significant enough ($r = -0.015$, $p = 0.414$).

Table 9: Correlations between CT and M_N

Executives and Students (N = 102)

Type of Trust	Intended Need-based Monitoring			Type of Trust	Actual Need-based Monitoring		
	High Trust (a)	Low Trust (b)	All Trust (c)		High Trust (d)	Low Trust (e)	All Trust (f)
CT _{COG}	0.104	-0.277 <i>p</i> <0.05	-0.455 <i>p</i> <0.01	CTCOG	-0.115 <i>p</i> =0.127	-0.019 <i>p</i> =0.425	-0.125 <i>p</i> <0.05
CT _{AFF}	0.104	-0.223 <i>p</i> <0.05	-0.420 <i>p</i> <0.01	CTAFF	-0.105 <i>p</i> =0.147	-0.038 <i>p</i> =0.354	-0.132 <i>p</i> <0.05
CT _{STAT}	0.138	-0.069 <i>p</i> =0.245	-0.334 <i>p</i> <0.01	CTINT	0.035	0.043	-0.015 <i>p</i> =0.414
CT _{OVRL}	0.007	-0.252 <i>p</i> <0.01	-0.460 <i>p</i> <0.01	CTSTAT	-0.143 <i>p</i> =0.076	-0.053 <i>p</i> =0.299	-0.149 <i>p</i> <0.05
M_{N-ACTL}	-0.044	-0.055	-0.011	CTOVRL	-0.135 <i>p</i> =0.088	-0.028 <i>p</i> =0.390	-0.141 <i>p</i> <0.05

The sample of executives returned similar results regarding the relationship between competence trust and need-based monitoring (Table 10). The intended M_N was significantly correlated in all-trust scenario and low-trust scenario (columns b and c). The intended monitoring for the high-competence trust scenario was found insignificantly related to the level of trust in a negative way. This may be due to the executives exercising caution even though they felt that the agent was high in competence trust, a phenomenon perhaps characteristic of work experience which teaches one to err on the safer side. However, the postulated relationship between intended monitoring and competence trust was supported significantly in the low-trust scenario and in the combined scenario.

Nevertheless, in the case of actual monitoring, there was no support to the postulated negative relationship between the two variables, although in a few specific cases the relationship was insignificantly negative.

Table 10: Correlations between CT and M_N

Executives (N = 34)

Type of Trust	Intended Need-based Monitoring			Type of Trust	Actual Need-based Monitoring		
	High Trust (a)	Low Trust (b)	All Trust (c)		High Trust (d)	Low Trust (e)	All Trust (f)
CT _{COG}	-0.041 <i>p</i> =0.410	-0.547** <i>p</i> <0.01	-0.342** <i>p</i> <0.01	CT _{COG}	0.101	0.057	-0.163 <i>p</i> =0.093
CT _{AFF}	-0.043 <i>p</i> =0.404	-0.555** <i>p</i> <0.01	-0.337** <i>p</i> <0.01	CT _{AFF}	0.002	0.036	-0.195 <i>p</i> =0.056
CT _{STAT}	-0.013 <i>p</i> =0.471	-0.494** <i>p</i> <0.01	-0.317** <i>p</i> <0.01	CT _{INT}	0.174	0.118	-0.064 <i>p</i> =0.303
CT _{OVRL}	-0.217 <i>p</i> =0.108	-0.589** <i>p</i> <0.01	-0.381* <i>p</i> <0.01	CT _{STAT}	-0.064 <i>p</i> =0.360	0.054	-0.188 <i>p</i> =0.063
M_{N-CTL}	-0.127	-0.096	-0.051	CT _{OVRL}	0.002	0.060	-0.193 <i>p</i> =0.058

The sample of students returned similar results regarding the relationship between competence trust and need-based monitoring (Table 11). The combined trust scenario produced results significantly supporting the hypothesised relationship between CT and M_N . Need-based monitoring was significantly [negatively] correlated vis-à-vis CT_{COG} ($r = -0.523$, $p < 0.01$), CT_{AFF} ($r = -0.554$, $p < 0.01$), CT_{STAT} ($r = -0.482$, $p < 0.01$), and CT_{OVRL} ($r = -0.625$, $p < 0.01$).

Table 11: Correlations between CT and M_N

Students (N = 68)

Type of Trust	Intended Need-based Monitoring			Type of Trust	Actual Need-based Monitoring		
	High Trust (a)	Low Trust (b)	All Trust (c)		High Trust (d)	Low Trust (e)	All Trust (f)
CT _{COG}	0.029	-0.370 <i>p</i> <0.01	-0.523 <i>p</i> <0.01	CT _{COG}	-0.095 <i>p</i> =0.220	-0.048 <i>p</i> =0.350	-0.077 <i>p</i> =0.187
CT _{AFF}	-0.012 <i>p</i> =0.461	-0.494 <i>p</i> <0.01	-0.554 <i>p</i> <0.01	CT _{AFF}	0.016	-0.016 <i>p</i> =0.450	-0.021 <i>p</i> =0.402
CT _{STAT}	0.042	-0.399 <i>p</i> <0.01	-0.482 <i>p</i> <0.01	CT _{INT}	-0.006 <i>p</i> =0.479	0.061	0.046
CT _{OVRL}	-0.129 <i>p</i> =0.147	-0.576 <i>p</i> <0.01	-0.625 <i>p</i> <0.01	CT _{STAT}	-0.011 <i>p</i> =0.464	-0.091 <i>p</i> =0.230	-0.066 <i>p</i> =0.223
M_{N-CTL}	0.030	0.052	0.014 <i>p</i> =0.436	CT _{OVRL}	-0.030 <i>p</i> =0.404	-0.019 <i>p</i> =0.437	-0.041 <i>p</i> =0.320

The intended monitoring for the high-competence trust scenario did not yield support to the hypothesised relationship. However, the postulated relationship between intended monitoring and competence trust was supported significantly in the low-trust scenario, with M_N being significantly correlated vis-à-vis CT_{COG} ($r = -0.370$, $p < 0.01$), CT_{AFF} ($r = -0.494$, $p < 0.01$), CT_{STAT} ($r = -0.399$, $p < 0.01$), and CT_{OVRL} ($r = -0.576$, $p < 0.01$). Nevertheless, in the case of actual monitoring, there was no support to the postulated negative relationship between the two variables, although in a few specific cases the relationship was insignificantly negative.

The similarity in the responses of both the executives and the students in not significantly responding to *high competence trust* are somewhat intriguing. One would expect that when competence trust was high, at least at the intended level the managers would like to monitor the agent less. However, both the sample sets clearly negated such a postulate and showed a proclivity to monitor irrespective of the high trust level expressed by them. It is quite different from the case of control-based monitoring vis-à-vis high goodwill trust.

15. Overall Trust Versus Overall Monitoring

The overall correlations for all trusts and all monitoring for the entire sample returned similar picture (Table 12). The intended overall monitoring was negatively related - strongly too - to overall trust. H3 states that overall trust is negatively related to overall monitoring.

Table 12: Correlations between overall trust and overall monitoring

(N=101)

Type of Trust	Intended Monitoring			Type of Trust	Actual Monitoring		
	High Trust (a)	Low Trust (b)	All Trust (c)		High Trust (d)	Low Trust (e)	All Trust (f)
T_{COG}	-0.033 $p=0.322$	-0.311 $p<0.01$	-0.329 $p<0.01$	T_{COG}	0.037	-0.057 $p=0.210$	-0.080 $p=0.054$
T_{AFF}	-0.043 $p=0.273$	-0.286 $p<0.01$	-0.305 $p<0.01$	T_{AFF}	0.067	-0.065 $p=0.179$	-0.067 $p=0.090$
T_{STAT}	-0.445 $p<0.01$	-0.578 $p<0.01$	-0.568 $p<0.01$	T_{INT}	0.082	0.188	0.121
T_{OVRL}	-0.322 $p<0.01$	-0.532 $p<0.01$	-0.518 $p<0.01$	T_{STAT}	0.108	0.158	0.085
M_{ACTL}	0.195	0.221	0.172	T_{OVRL}	0.073	0.044	-0.016 $p=0.375$

This hypothesis was strongly supported in the context of intended monitoring where T_{OVRL} is significantly and negatively correlated vis-à-vis monitoring in all three scenarios (r values -0.322 in high-trust scenario, -0.532 in low-trust scenario and -0.518 in combined scenario,

$p < 0.01$ in all cases). The elements of trust, too, were significantly and negatively correlated vis-à-vis T_{OVRL} . The exception to this was T_{COG} and T_{AFF} in the case of high-trust agent, where the association was weak and insignificant, negative notwithstanding. However, the actual monitoring showed weak support to the hypotheses. This pattern was an outcome of the aggregation of various scenarios of GWT and CT discussed earlier and therefore was in tune with the earlier findings.

The summary of findings about the hypothesised relationships that trust has vis-à-vis intended monitoring is shown in the figure below:

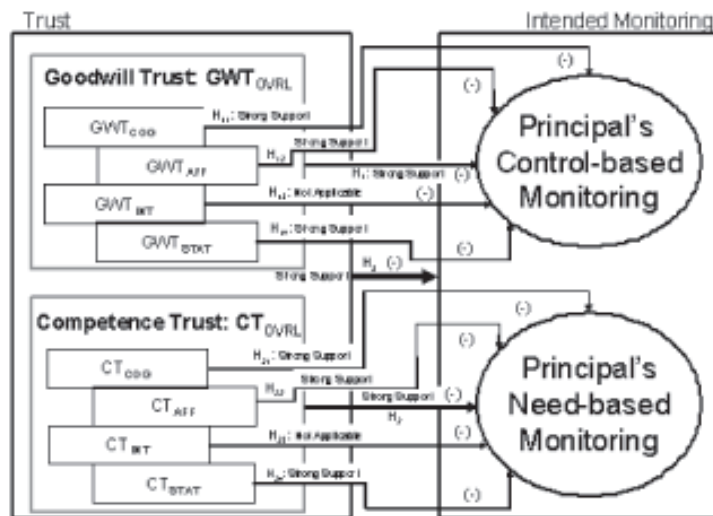


Figure 2: Research outcome: Intended monitoring

The summary of findings about the hypothesised relationships that trust has vis-à-vis actual monitoring is shown in the figure below:

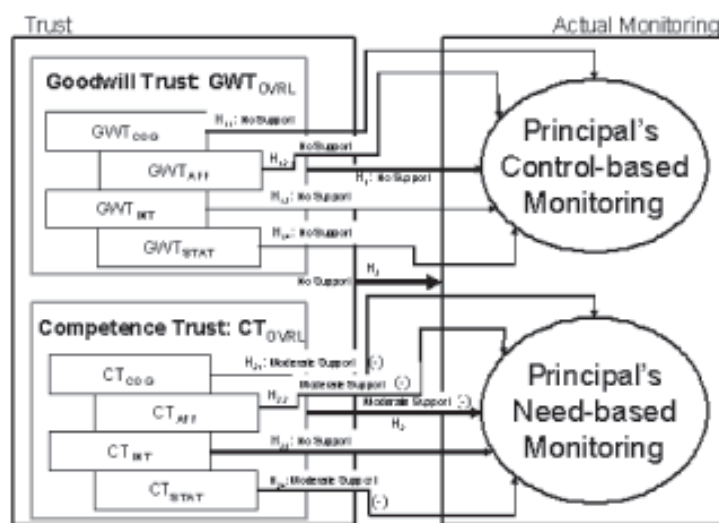


Figure 3: Research outcome: Actual monitoring

16. Conclusions and Discussion

The current research examined the relationship between trust and monitoring in a principal-agent relationship. Trust was dissected into cognition, affect and conation, and monitoring was dichotomised into intended monitoring and actual monitoring. The current research used simulated conditions of principal-agent relationship for creating the context in which the postulated relationship between the variables was to be captured. The efforts to create high-trust and low-trust scenarios bore fruit and it was found that the pattern was clear in cell mean scores across both the samples of students and executives. This validated both the simulation and the choice of students as main respondents in this study, accounting for two-thirds of the sample.

In line with mentions in the extant literature, it was expected that trust and monitoring - both intended and actual - would be negatively correlated because trust mitigates the need for control and hence the need for monitoring. The study found strong support for the postulated relationship in the case of intended monitoring, which was, with high level of significance, correlated with trust negatively. However, actual monitoring, which was measured through the respondents' allocation of time amongst various activities, did not find support to the hypotheses. One plausible reason for this divergence in findings may be that whereas the respondents express their intentions by isolating the influence of any other extraneous factors whilst responding to the questionnaires, they are confounded by the influence of such factors whilst taking decisions.

Actual monitoring across all samples and all scenarios found no support to the postulated relationship between the variables. Only in the case of the executives, the actual MC was negatively related to GWT, that too mainly in the overall scenario. However, students failed to display the expected behaviour in actual MC in relation to GWT. This may be due to the fact that students could not see the implications of their actions in the form of monitoring in different trust scenarios. This gains ground when we see that their intended MC had significant correlation with all types of GWT. What this means is that whereas they comprehend what is the appropriate response to a trust context, they are unable to convert it to action given a situation. This is possibly explained by their lack of experience in real world.

The findings of this research are in conformity with the studies already published (Andaleeb, 1996; Das & Teng, 2001; McAllister, 1995). The earlier studies touched upon this aspect of channel/inter-organisational relationship much less deeply. McAllister's work used a different dimension of trust-monitoring relationship: cognition-based trust negatively associated with control-based monitoring and affect-based trust positively associated with need-based monitoring. However, the current study has used the term 'affective trust' as an expression of conviction about the trustworthiness about the agent and thus there is no direct contradiction between the two studies. The difference between the two studies is in the use of the construct need-based monitoring. The study by Andaleeb (1996) looked at the negative relationships between trust and control in their respective entirety. McAllister (1995) and Andaleeb (1996) relied mainly on responses to questionnaire or write-ups by the

respondents, and to this extent, their studies stopped short of assessing actual behaviour. The current study aimed at filling this gap and hence had gone a step further by stretching the logic to the actual behaviour of the principals and compare/contrast it with the intended behaviour expressed by the respondents. This was achieved through developing a method or an environment to 'observe' the actual behaviour, which is an important contribution of this research.

The responses by the students and executives matched in most of the cases. A curious case of deviation was in the pattern of need-based monitoring score. One would have normally expected that the MN value (intended) would be low in high-competence trust context and high in low-competence trust context. This was found to be in order in the executives' data. However, the students' data overturned this pattern, raising curiosity as to its explanation. This unusual pattern was so strong that it even affected the overall intended MN by the students, which too showed a similar pattern. Low competence trust seems to have had less impact on students' intended behaviour. Possibly, students were still not attuned to the significance of low competence trust in their agent due to their lack of sufficient work experience. This argument gains ground when we see that their intended MC values followed the expected pattern of high in low-GWT and low in high-GWT contexts, similar to those witnessed in the executives' data. Perhaps, integrity-related trust seems to cause sharp reaction amongst the students whereas competence trust does not seem to evoke such responses. Although there was no significant difference observable between the responses of the student samples and the executive samples in so far as the relationship between trust and intended monitoring was concerned, the picture was considerably different in the actual monitoring. Whereas students displayed a noticeable negative relationship between trust and monitoring in the case of competence trust, executives reacted much less negatively in the same context. However, the picture turns reverse when one looks at the goodwill trust scenario, where the executives showed a much more noticeable negative relationship between trust and actual monitoring whereas students responded so only in the context of low trust. The reason for such a difference in responses may be the different orientations of the two sets sampled: students, not yet well exposed to handling real-life agents, may be unwilling to drop guard in the case of high-goodwill trust agent, whereas executives who have probably seen ample cases of agents with low goodwill trust responded sedately when encountered with such an agent in the experiment; however, when the executives faced a low-competence trust agent, their natural instinct to handle low competence with controls must have made them respond swiftly to undo the effects of low competence trust. - This was observed in their allocation of scarce resources by reducing need-based monitoring in the case of high competence trust.-

This article found paradoxical but important behavioural patterns amongst the respondents. Specifically, the finding that high competence trust did not evoke much response in both the sample sets is revealing of the phenomenon *that as far as task performance is concerned, managers have a tendency to monitor irrespective of the capabilities of their agents*. What this implies is that executives and students are aware and believe that when the agent is trust worthier they should monitor the agent less; nevertheless, when it came to deciding on the spot about monitoring the agent's task performance, they displayed a different behaviour.

This can be due to two possible reasons: either there are factors that influence decisions relating to need-based monitoring more than trust or *irrespective of what the trust level is respondents choose to monitor the agent for his task performance*. This phenomenon is curious because the respondents were fairly discerning in their responses to goodwill trust, where the executives' data showed clear negative correlations overall in the actual monitoring behaviour as well as in their intended monitoring.

Another important implication of this research work to the field of management in practice is that executives were not willing to let their guard down even though they perceived the goodwill trust to be high, whereas in low-trust context they were willing to monitor more. This intended behavior may be due to the tendency to err on the safer side of not being a victim of agent's opportunism, and their conditioning in organisation dynamics may be the cause of this. On the contrary, students responded sharply to high goodwill trust, possibly due to their not being conditioned to think as noted in the case of the executives. The difference in this behaviour may be explained in plain terms as wisdom through experience. Interestingly, such a difference was not found in the context of competence trust, where both students and executives were unwilling to drop their guard even though trust level was high.

Although this research has not attempted to quantify the normative degree of monitoring at different levels of trust, such quantification is an important issue to be considered in the interest of managerial practice.

17. Limitations and Future Directions for Research

The study was based on laboratory experiment amongst students and executives. The external validity of such experiment in the context of monitoring deserves greater assessment.

The study used only MBA students and executives as respondents. In reality, the interpersonal relations pertain to the boundary personnel of the principal and the agent. There is a need to study the phenomenon considered in this research using such boundary personnel as respondents to get a real-life picture.

The simulation used in this study needs to be used amongst wider range of samples of different types to test if it evokes consistent responses to establish its scale-validity for the actual monitoring behaviour.

This research showed the presence of negative relationship between trust and monitoring. The findings of the study point at scope for further research as follows:

- On the basis of the present research, a better understanding of the relationship between trust and monitoring in different relationship contexts, types of organisations and industries can be obtained.

- Specifically, superior-subordinate dyadic relationship context with different personality types of the two members can shed interesting light on the role of trust in decisions relating to monitoring.
- Research is possible on the influence of managerial decision styles - bureaucratic, consultative, delegative and so on, on the relationship between trust and monitoring.
- In the context of a marketer and distributor in consumer products - durables as well as non-durables - the moderating influence of brand power on the relationship between trust and monitoring can be examined.
- There is a need for a comprehensive competence-trust inventory in Indian context, where dynamics of relationship within the organisation are influenced by loyalty as well as competence.
- Quantification of the normative degree of monitoring is an aspect that needs to be established under different degrees of trust. This can be carried out through sample of experts using iterations and Delphi technique.
- Conceptual model development and simulation development involving trust and monitoring in a dynamic environment can be developed. Evidently, in a dynamic context, the degree of trust varies by the non-opportunistic behaviour of the agent over time. This, in turn, affects the degree of monitoring to be exercised on that agent. Such a study is especially possible in the field of Systems Dynamics. It will be a useful learning tool for managers in an experiential setting.

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Service Quality Expectations and Perceptions of Public and Private Sector Banks in India: A Comparative Study

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Abstract

The study 'Banking services: Customer expectations and perceptions' attempts to analyse the gulf in service quality of public and private sector banks in terms of customers' expectations and perceptions. The study has been carried out at both aggregate and disaggregate levels in order to explore and map the differences. The study also traces the factors affecting customer expectations and perceptions in regard to the service quality of banks. The primary data were collected with the help of a standardised questionnaire of service quality of Parasuraman which was administered to a convenience sample of 400 respondents accessing banking services in Gwalior, a city in Madhya Pradesh, a state in India. The data collected were analysed with the statistical tools of Factor Analysis and 'z'-test. The study revealed that, at the aggregate level, there was a statistically significant gap between customers' expectations and perceptions of banking services, with the arithmetic mean of expectations being 5.110 and that of perceptions 4.556. The factors influencing customers' expectations came out to be responsive attitude, reliability, tangibles, convenience, assurance and empathy. At the disaggregate level, the study revealed that there was a statistically significant difference between customers' expectations from public and private sector banks, with the arithmetic mean of expectations from private sector being 5.124 and that of public sector 5.055. Similarly there was a statistically significant difference between customers' perceptions from public and private sector banks, with the arithmetic mean of perceptions of private sector banks being 4.553 and that of perceptions of public sector banks being 4.526. The study concludes that in view of the stiff competition in the global business arena where businesses have to survive and grow on the basis of volume instead of margin, service quality will constitute an essential plank of service marketing. This implies that public sector banks will have to focus on the reduction of the gap in customer expectations and perceptions about their service quality if they are to compete in the global marketplace. To this end, public sector banks should continually assess and reassess how customers perceive their services and to implement appropriate corrective action for retaining the existing customers and getting new customers.

1. Introduction

The liberalisation of the Indian economy in 1991 set off a chain of paradigmatic changes in most sectors. One of the sectors that came in for immediate structural changes was the financial sector. Although the non-banking financial corporations had already been operating in the private sector, the government zealously guarded the banking sub-sector ever since bank nationalisation in the 1970s. The public sector banks operated like any public undertaking. Obviously, their functioning suffered from similar shortcomings. Amongst these, no less important a shortcoming was customer service. The liberalisation of the banking sector brought in stiff competition in the form of no holds-barred private sector

banks that marketed their services amongst the public aggressively. It witnessed the emergence of national mega-banking companies such as (ICICI) and Housing Development Finance Corporation (HDFC) Banks, for whom customer service was an article of faith. The changed business environment in general and the banking sub-sector scenario in particular compelled the public sector banks to give up their elephantine indifference to the needs of the customers. With a view to vying for the market share with the private sector banks, they started focusing on efforts to provide quality customer service.

The concept of quality management in business organisations is as old as the advent of the industrial revolution, which changed the pattern of production processes from personalised and integrated to mass and assembly-based ones. What could not be accomplished in terms of quality control in the pre-industrial production processes could be easily achieved in the industrial production processes through the standardisation of processes and products. In the initial stages, quality management of products and the industrial production processes took precedence over that of systemic processes. System-based quality assurance envisages standardisation of procedures that oversee the interaction between products, processes and people. Obviously, this shifted focus to customers and customer relationship management, with the overwhelming realisation that the customer is the king. Unlike in the case of manufacturing companies, where the goods are manufactured and then sold to customers, in the services sector the customer is a part and parcel of the process that provides the service. This is especially true of banking services, both retail and corporate. So, it becomes all the more important for a banker to concentrate on the various dimensions of service quality from the customers' perspective.

In the context of the comparative efforts at positioning of private and public sector banks in the market, this study attempts to assess the level of service quality perceptions of banking sub-sector customers and map out the differences between the service quality perceptions and expectations of customers of private and public sector banks along with the factors responsible for these differences.

2. Review of Literature

For the past 30 years various topics such as the nature of service quality, bank choice criteria, bank switching behaviour and buying decision-making have been examined by different researchers such as Berry, Parasuraman, and Zeithaml, (1989), and Turnbull and Gibbs (1989). Amongst the studies carried out on corporate customers, focus has been on the importance of service in contributing to the development of corporate banking relationships (de Brentani & Cooper 1992). Bahia and Nantel (2000) developed their own BSQ (banking service quality) scale and compared it with SERVQUAL (service quality) scale, and concluded that the model they developed was more reliable and fits the validity criteria. The elements of their scale are effectiveness and assurance, access, price, tangibles, service portfolio and reliability. Aldlaigan and Buttle (2002) conducted an empirical study to develop a new scale to measure service quality perceptions of retail bank customers. They developed a new 21-item scale comprising four dimensions: service system quality, behavioural service quality, service transactional accuracy and machine service quality. They found that customers

evaluate service quality at two levels: organisational and transactional. The parsimony, reliability and validity of this scale suggest that this is a measure of high utility to the banking industry.

Jabnoun and Al-Tamimi (2003) examined perceived services quality in commercial banks in the United Arab Emirates, emphasising the importance of service quality to maintain market share, concluding that customers value human skills the most in service quality. Many studies have been conducted on measuring the service quality of Internet Banking also. Liao and Cheung (2005) present a user-based core framework for evaluating service quality of e-banking. Empirical results suggest that perceived usefulness, ease of use, reliability, responsiveness, security and privacy and continuous improvement of e-banking services significantly influence customer attitudes towards Internet e-banking.

3. Some Corporate Evidence

There are only a few published works that relate to corporate customers' perceptions of conventional banking service quality. Turnbull (1983) was amongst the first researchers who studied the perceptions of corporate customers towards their banks. He examined the relationship between 44 corporate customers in United Kingdom and their bankers. He found that size played an important role in maintaining split banking practices. He also found that large corporations tend to prefer foreign banks to the local banks. In furtherance of Turnbull's study, Rosenblatt, Laroche, Hochstein, Mctavish and Sheahan (1988) found that almost half of the corporate treasurers were solely responsible for the selection of the bank(s). The two factors that influenced their decision-making were better branching networks and quality service. Turnbull and Gibbs (1989) found that the corporate customers perceived quality of service as the most important factor in establishing a relationship. Other influential factors were quality of staff, bank manager's attitude and price of service. Although very large companies considered quality of service as the most important factor, both price and quality of staff were equally important. Split banking relationship practice was common amongst the corporate customers. Almost all of the researchers agreed that physical appearance of the banks had no impact on their selection process. Tyler and Stanley (1999) used orthodox grounded theory in their study with the objective of identifying key elements of perceived service quality by large corporations. They found that the elements considered important were reliability, assurance, empathy, responsiveness and proactivity. Attempts to 'package' commoditised service relationship have not yielded relationship benefits. Instead, they have increased the risk and vulnerability both for the buyer and for the seller of financial services. Relationships develop organically over time as a result of a number of factors, including disparate elements such as simple longevity, full and effective communication (Crane & Eccles, 1993; Tyler, 1996), efficient and satisfactory service (Turnbull & Gibbs, 1989) and a range of human factors that are based on the skill and personality of bank and company staff and their ability to interact on a personal level. As such, human capital is stressed as a crucial factor in the development and maintenance of relationships (Turnbull and Gibbs, 1987; Turnbull and Moustakatos, 1996b). As relationships become mature, the line between benefits, characteristics and strategies of relationship development becomes blurred, and each aspect acts in a multi-functional sense. For example, trust and commitment begin to

act as maintenance aspects within the relationship.

Yavas, Bilgin and Shemwell, (1997) emphasised the importance of understanding the specific needs of the customers and the empathy factor in pleasing the customer. These are ways of showing personal attention to the customer. Displeasing the customer in relation to service quality will naturally enhance negative responses from customers and increase the pressure on the complaint mechanisms. Thunman (1992) found that the size of the buying company is crucial to the nature and satisfaction of a company's banking relationships. Small companies have a greater desire for banking relationships, yet have a lower level of satisfaction (Turnbull and Gibbs, 1989). This relates to factors of dependence and information asymmetry associated with the bank/small and medium-sized enterprise interface. Large corporate houses are associated more with transaction-based multi-supplier banking strategies than SMEs. These have been described by Berry and Parasuraman (1991) as 'expert customers'. That is, they have specialist financial functions and access to the same information as the banks with which they do business. They also have endogenous professional financial expertise. This is an internal reflection of the complex nature of their banking requirements, which may also explain their multi-banking preference. Their requirements fall broadly into three categories of functionality (Thunman). The importance of service in contributing to the development of corporate banking relationships is acknowledged (Brentani & Cooper, 1992; Turnbull & Moustakatos, 1996b). The impact of relationships upon services has received less attention. Ennew and Binks (1996) argue that the perception of service levels is determined partially by the interaction levels, and that effective management of a relationship assists the quality of service.

Quality of service is a means 'to establish, maintain and enhance relationships, (usually but not always long-term), with customers and other partners, at a profit, so that the objectives of the parties are met' (Grönroos, 1990). Grönroos (1990) divides the perception of service into factors of technical quality that refer to procedures of service delivery, and functional quality, which refers to interactive factors in the delivery of services. Technical quality is linked expressly to the concept of efficiency of systems in service delivery. Functional quality stresses human elements of service delivery, including elements that exist outside the specifics of the transaction. In this sense, it is a holistic definition of service and refers to all levels of the provision of services and the service provider's organisation.

Grönroos (1990) seeks to define aspects of quality service based upon his variable selection. He identifies 10 criteria of good perceived service: professionalism, attitudes, behaviour, accessibility, flexibility, reliability, trustworthiness, recovery, reputation and credibility. These factors refer to both the regular and exceptional services identified (Berry et al., 1989, Thunman, 1992), and focus especially on relationship-related functional factors. Grönroos' work is important in providing a framework for describing the quality by an analysis of its components. Parasuraman, Zeithaml and Berry (1988) have provided a component framework for understanding those elements, which constitute quality service. Bonaccorsi and Fiorentinon (1996) have clear implications for the management of service quality, as its perception by the recipient is difficult to predict. Two methods of judgment of service quality have been identified: equity models, the notion of the fair exchange (Bonaccorsi & Fiorentinon; Oliver & Swan, 1989), and the persuasive disconfirmation of expectations,

where judgment is derived from the comparison of expectation and perceived outcome (Bonaccorsi & Fiorentinon; Parasuraman et al.). However, both of these are driven by the perception of service, not definitive measurement, and so do not resolve the problem of predicting purchaser response. It has been seen that the relationship in which a service is provided is important in shaping the perception of the service delivered (Grönroos).

4. Some Indian Evidence

Gudep and Elango (2006) focused on the service quality and customer satisfaction amongst the private, public and foreign banks in India. A well-structured questionnaire was used to collect the views of respondents across the three banking sectors. The survey instrument included various dimensions pertaining to the quality of customer services in terms of banking personnel, convenient working hours, web-based services, error-free value-added services and efficient grievance redressal mechanism. The authors used 'factor analysis' (FA) and the 'one-way analysis of variance' classification to extract the relevant factors and analyse whether there was any significant difference with respect to service quality between the three banking sectors. The results indicated that the foreign and the new generation private sector banks were serving the customers better. This had larger implications on the public sector commercial banks in India with respect to customer service delivery aspects.

Chawla and Singh (2008) tried to measure service quality in the life insurance sector. They specifically focused on identifying the service quality factors affecting customer satisfaction levels of the policyholders. The study was based on the responses of 210 policyholders from northern India. Various statistical tests, namely reliability analysis and FA, were employed to test data that were collected through survey method. The findings of the study revealed that the accessibility factor has a higher mean satisfaction compared with mean satisfaction of reliability and assurance factors. Comparison of overall mean satisfaction based on various factors extracted showed that respondent who had purchased insurance policies before privatisation had a higher mean score compared with the respondents who took insurance policies after privatisation.

Shekhar and Gupta (2008) explored customers' perspectives on the concept of relationship marketing. They attempted to understand the customers' perspective on their relationship with financial service provider and the quality of service provided by them. They focused on the customers' motivations behind engaging themselves in a relationship and the factors, which influence them in this regard. He concluded that a financial service provider should take these motivations and factors into consideration at the time of formulating relationship-marketing strategies.

Rohini (2006) undertook a service quality perception study in five hospitals in Bangalore city. The well-documented 'Service Quality Model' was used as a conceptual framework for understanding service quality delivery in healthcare services. The measuring instrument used in this study was the SERVQUAL questionnaire for the measurement of Gap 5 and Gap 1. An analysis covering a sample of 500 patients revealed that there exists an overall service quality gap between patients' perceptions and their expectations. An analysis covering

a sample of 40 management personnel revealed that a gap between managements' perception about patients' expectations and patients' expectations of service quality also exists. The study suggested improvements across all the five dimensions of service quality - tangibles, reliability, responsiveness, assurance and empathy.

Mengi (2009) conducted a study to compare customers' perceptions of service quality of public and private banks in Jammu. SERVQUAL scale was used to determine different dimensions of service quality, and chi-square analysis was used to understand the impact of SERVPERF (service performance) dimensions (tangibility, reliability, responsiveness, assurance and empathy) on customer satisfaction. It was found that the customers of public sector banks are more satisfied with their service quality than those of private sector banks.

In the light of the preceding review of the studies carried out in this area, we find that there are very few studies focusing on a comparative analysis of services quality expectations and perceptions of customers of public and private sector banks in the Indian context. So this study not only focused on various factors affecting customer's expectations and perceptions in regard to the service quality of banks but also tried to compare the expectations and perceptions of customers of public and private sector banks.

5. Research Design and Methods

5.1 Survey instrument

The standardised questionnaire SERVQUAL (Parasuraman et al., 1988) consisting of 22 items was used for measuring the service quality dimensions in banks and consisted of two sections: an expectation section and a perception section. The expectation section required the respondents to indicate on a 7-point scale (strongly disagree to strongly agree) the extent to which the ideal service providing organisation (in this case a bank) possesses the characteristic desired in each statement. In the perception section, the statements required the respondent to indicate the extent to which the particular bank possesses the characteristic described, again on a 7-point (strongly disagree to strongly agree) scale. The original SERVQUAL instrument had seven categories; that is, it employed a 7-point scale (Parasuraman). Hence the instrument used in this study for measuring customer-perceived service quality also employed a 7-point scale, anchored by strongly disagree and strongly agree at the end points 1 and 7, respectively.

5.2 Pre-testing

Both qualitative and quantitative assessments were conducted for purification of scale items. For quantitative assessment, item-to-total correlation test was applied to check the consistency of the scale. Under item-to-total correlation, correlation of every item with total is measured and the computed value is compared with standard value, that is 0.1374. If the computed value is found less than the standard value then the whole item or statement is dropped and is termed as inconsistent (Nunnally, 1978). No item was dropped in the scale. Results of item-to-total correlation are shown in Table I. For qualitative assessment,

a pilot study was conducted with a small sample size of 25 to check the overall structure of questionnaire. The respondents confirmed face validity of items in the questionnaire.

Table I: Consistency measure of questionnaire

Item	Computed Correlation Value	Consistency	Accepted or Dropped
P1. Your bank has up-to-date equipment.	0.4028	Consistent	Accepted
P2. Your bank's physical facilities are visually appealing.	0.52180	Consistent	Accepted
P3. Your bank's employees are well dressed and appear neat.	0.3529	Consistent	Accepted
P4. The appearance of the physical facilities of your firm is in keeping with the type of services provided	0.5281	Consistent	Accepted
P5. When your bank promises to do something by a certain time, it does so.	0.5547	Consistent	Accepted
P6. When you have problems, your bank is sympathetic and reassuring.	0.3912	Consistent	Accepted
P7. Your bank is dependable.	0.4966	Consistent	Accepted
P8. Your bank provides its services at the time it promises to do so.	0.3919	Consistent	Accepted
P9. Your bank keeps its records accurately.	0.4764	Consistent	Accepted
P10. Your bank does not tell customers exactly when services will be performed.	0.2449	Consistent	Accepted
P11. You do not receive prompt service from your bank's employees.	0.2666	Consistent	Accepted
P12. Employees of your bank are not always willing to help customers.	0.3622	Consistent	Accepted
P13. Employees of your bank are too busy to respond to customer requests promptly.	0.3574	Consistent	Accepted
P14. You can trust the employees of your bank.	0.3245	Consistent	Accepted
P15. You feel safe in your transaction with your bank's employees.	0.4361	Consistent	Accepted
P16. Employees of your banks are polite.	0.4784	Consistent	Accepted
P17. Employees get adequate support from your bank to do their jobs well.	0.4636	Consistent	Accepted
P18. Your bank does not give you individual attention.	0.3579	Consistent	Accepted

Item	Computed Correlation Value	Consistency	Accepted or Dropped
P19. Employees of your bank do not give you personal attention.	0.3789	Consistent	Accepted
P20. Employees of your bank do not know what your needs are.	0.3511	Consistent	Accepted
P21. Your bank doesn't have best interests at heart.	0.4167	Consistent	Accepted
P22. Your bank doesn't have operating hours convenient to all its customers.	0.3985	Consistent	Accepted

5.3 Data collection

The questionnaires were distributed amongst customers who had current accounts with four major banks in the retail banking industry from August to December 2007. Two banks from public sector and two banks from private sector - State Bank of India (SBI), State Bank of Patiala, ICICI Bank and HDFC Bank - were selected. All these banks have a strong retail presence in the banking industry and are the largest and most profitable banks in India. The sample size was fixed at 400 customers. Convenience sampling technique (non-probability technique) was used to get the questionnaire filled by the customers. Every alternate customer entering the bank was asked to complete the questionnaire. Out of 400 respondents, 280 respondents agreed to fill up the questionnaire. On further filtering, 240 responses were found to be properly and completely filled.

6. Hypotheses of the Study

Keeping the objectives in mind, this study intends to test the following hypotheses:

(Ho1): There is no significant difference in the perceptions of customers of public and private sector banks.

(Ho2): There is no significant difference in the expectations of customers of public and private sector banks.

(Ho3): There is no significant difference between the expectations and perceptions of customers of banks.

7. Tools Used for Data Analysis

To check the reliability of data items of the questionnaire, Cronbach's alpha and Gutman reliability tests were performed by using SPSS software. FA was applied to find out the underlying factors affecting customers' perceptions in regard to the service quality of banks. In order to map the differences in the perceptions of the customers of public and private

sector banks, Z-test was applied. This test was also applied to map the difference in the expectations of the customers of public and private sector banks. It was again applied to draw a comparison between the expectations and perceptions of customers of banks.

8. Results and Discussion

The results of the survey have been discussed in five sections. Section I analyses the reliability measure of the questionnaire, Section II presents the results of FA used to find out the factors that contribute to service quality, Section III discusses the comparison between customers' expectations and perceptions of banks at the aggregate level; Section IV draws a comparison between customer's expectations from private and public sector banks and Section V highlights the comparison of public and private sector banks in terms of customer perceptions.

8.1 Section I - Reliability measure of the questionnaire

The reliability of items was assessed by calculating the coefficient alpha (Cronbach, 1951), gutman split-half, which measures the internal consistency of the items. Reliability measure was carried out using SPSS software and the SPSS output is shown in Table 2. For a measure not to be rejected, coefficient value in all the cases should be above 0.7 (Nunnally, 1978). It can be seen that in almost all the reliability methods applied here, reliability value is more than 0.7, so it can be said that all the items in the questionnaire are highly reliable.

Table 2: Reliability measure of questionnaire

Alpha	0.787
Guttman	0.827

8.2 Section II - FA

FA provided enhanced control for assessing the extent to which items on a factor measure one single construct (Ahire, Golhar, & Waller, 1996). For each customer, SERVQUAL scores were generated. A SERVQUAL score is obtained by subtracting the expectation score from the perception score for each SERVQUAL item. FA was conducted with the SERVQUAL scores for the entire set of 240 customers. FA model was run through SPSS software and the output is shown in Table 3. The FA was undertaken using the principal component extraction method with Varimax rotation. The sorted rotated values of the factor loading with minimum value of 0.5 or more have been considered (Refer Table 3).

Table 3: FA for questionnaire

Factor name	Eigen Value Variance	%of Total	Variable Convergence	Loading
Responsive Attitude	4.306	19.571	P13. Employees of your bank are too busy to respond to customer requests promptly.	0.781
			P10. Your bank does not tell customers exactly when services will be performed.	0.714
			P7. Your bank is dependable.	0.553
			P8. Your bank provides its services at the time it promises to do so.	0.528
			P11. You do not receive prompt service from your bank's employees.	0.521
Reliability	2.558	11.127	P20. Employees of your bank do not know what your needs are.	0.779
			P14. You can trust the employees of your bank	0.755
			P21. Your bank doesn't have best interests at heart.	0.720
			P9. Your bank keeps its records accurately.	0.665
			P19. Employees of your bank do not give you personal attention.	0.664
			P15. You feel safe in your transaction with your bank's employees.	0.544
Tangibles	1.592	7.235	P1. Your bank has up-to-date equipment.	0.757
			P2. Your bank's physical facilities are visually appealing.	0.748
			P3. Your bank's employees are well dressed and appear neat.	0.680
			P4. The appearance of the physical facilities of your firm is in keeping with the type of services provided.	0.500
Convenience	1.343	6.106	P12. Employees of your bank are not always willing to help customers.	0.744
			P18. Your bank does not give you individual attention.	0.699
			P22. Your bank doesn't have operating hours convenient to all its customers.	0.519
Assurance and Empathy	1.225	5.568	P17. Employees get adequate support from your bank to do their jobs well.	0.731
			P16. Employees of your banks are polite.	0.724
			P6. When you have problems, your bank is sympathetic and reassuring.	0.516

This study provides significant contribution to theory by devising a reliable and valid measurement instrument, which has used SERVQUAL (Parasuraman et al., 1988) as a base model. After conducting the factor analysis, a six-dimensional instrument comprising responsive attitude, reliability, tangibles, convenience, and assurance and empathy was formed. The study indicated that amongst the various service quality dimensions, 'responsive attitude' is the best predictor, followed by reliability, tangibles, convenience, and assurance and empathy.

8.2.1 Responsive attitude

The study shows that the factor 'Responsive attitude' is an important determinant of service quality perception in financial services with a total variance of 19.571. The factor responsiveness was defined by variables such as 'Your bank does not tell customers exactly when services will be performed' (0.714), 'Your bank is dependable' (0.553), 'Your bank provides its services at the time it promises to do so' (0.528), 'You do not receive prompt service from your bank's employees' (0.521). Lovelock and Wirtz (2007) classified services along two axes, namely: 'relative involvement of goods ranging from pure services that are low on goods (consulting, insurance), services with some goods or delivered through goods (air travel, retailing, couriers, hotels, banking, maintenance) to services embodied in goods (music, books)' and 'degree of consumer-producer interaction', from lower to higher. The author suggested that banking was in the sector featuring medium goods and higher customer-producer interactions because in banking, consumers and service providers interact personally and the use of goods is at a medium level. Hence, in banking, where there are high customer-producer interactions, the quality of service is determined to a large extent by the degree of responsive attitude of people producing the service. Viewed in this light, superior performance on 'responsive attitude' should boost customers' perception of enhanced quality of service by the banks. Employees at the front desk should, therefore, resolve customers' complaints on time and should take them seriously. This implies that the bank service providers should invest in empowering the front desk employees and providing them with adequate resources so that they can take prompt action on customer queries and suggestions. Also, the employees should be efficient enough to make decisions regarding customer's problems at their level, thereby providing adequate responsiveness.

8.2.2 Reliability

The study shows that the second important factor that influences the overall service quality as perceived by customers is 'Reliability'. Banks need to focus on knowing the needs of the customers, giving them personal attention, providing security in customer transactions and ensuring the accuracy of billing system. The total variance of this factor was 11.127. It includes sub-factors such as 'Employees of your bank do not know what your needs are' (0.779), 'Customer should be able to trust employees of these firms' (0.755), 'Your bank doesn't have best interests at heart' (0.720), 'Your bank keeps its records accurately' (0.665), 'Employees of your bank do not give you personal attention' (0.664) and 'Security in customer transaction' (0.544).

8.2.3 Tangibles

The study reveals tangibles as one of the important determinants of service quality perception in banks, with a total variance of 7.235. It is an important dimension in affecting the customer's perception of overall service quality. The factor includes sub-factors such as 'Your bank has up-to-date equipment' (0.757), 'Your bank's physical facilities are visually appealing' (0.748), 'Your Bank's employees are well dressed and appear neat' (0.680), 'The appearance of the physical facilities of your firm is in keeping with the type of services provided' (0.500). All these factors are noticed by the customers before or upon entering the bank. Such visual factors help consumers form their initial impressions. A crucial challenge in service marketing is that customers cannot see a service but can see the various tangibles associated with it - all these tangibles are clues about the intangible service. If unmanaged, these clues can send wrong messages about the service to the customers and render the marketing strategy of the company ineffective. Thus, service providers should focus on tangibles to achieve the perception of high level of service quality.

8.2.4 Convenience

The new dimension identified in this study is 'Convenience.' With a total variance of 6.106, it occupies the fifth place in terms of importance. This requires that the bank have convenient procedure for lodging complaints/queries and business hours without any difficulty. It has sub-factors such as - 'Not always willing to be helpful to customers' (0.744), 'Less promptness' (0.699), 'No individual attention by bank' (0.519).

8.2.5 Assurance and empathy

'Assurance and Empathy' occupy the fourth position in the study. Yavas et al. (1997) emphasised the importance of understanding the specific needs of the customers and the need for empathy to please the customer. This study also focuses on the requirement of the banks to give individual attention to the customers' queries and understand their specific needs. Whenever customers have problems, bank employees should sympathetically solve their problems. This factor has total variance of 5.56. It included sub-factors such as 'Employees get adequate support from their banks to perform their job well' (0.731), 'Employees of your banks are polite' (0.724), 'When you have problems, your bank is sympathetic and reassuring' (0.516).

8.3 Section III - Comparison between expectation and perception of customers of banks

The null hypothesis that there is no significant difference between the expectations and perceptions of customers of banks needs to be statistically tested. The statistical significance has been examined by using Z-statistic. If the estimated value of Z-statistic is greater than 1.96 and less than 2.58, it is significant at 5% level. If its value exceeds 2.58, it is significant at 1% level. In the event of the Z-statistic being significant, it implies that there is a significant

difference between the expectations and perceptions of customers of banks. The value of Z-statistic in case of service quality is 8.985, which is more than the standard value, 1.96 at 5% level of significance, so the null hypothesis is not accepted. There is significant difference between the expectations and perceptions of customers of banks.

Z > 1.96
Ho3 is not accepted

Type	Mean	Standard Deviation (S.D.)	Square of S.D.
Expectation	5.110	0.627	0.393
Perception	4.556	0.5816	0.3382

SE	0.0605
Z-value	8.98

8.4 Section IV - Comparison of Expectations of Customers of Public and Private Sector Banks

The null hypothesis that there is no significant difference between the expectations of customers from public and private sector banks needs to be statistically tested. The statistical significance has been examined by using Z-statistic. If the estimated value of Z-statistic is greater than 1.96 and less than 2.58, it is significant at 5% level. If its value exceeds 2.58, it is significant at 1% level. In the event of the Z-statistic being significant, it implies that there is significant difference between the expectations of customers' from public and private sector banks. The value of Z-test in the case of service quality is 7.756, which is more than the standard value, 1.96 at 5% level of significance, so the null hypothesis is not accepted. So, we may safely say that there is a significant difference between the expectations of customers from public and private sector banks.

Z > 1.96
Ho2 is not accepted

Type	Mean	S.D.	Square of S.D.
Public bank	5.055	0.6044	0.3652
Private bank	5.124	0.5476	0.2998

Standard error	0.00887
Z-value	7.756

8.5 Section V - Comparison of perceptions of customers between public and private banks

The null hypothesis that there is no significant difference between the perception of customers between public and private sector banks needs to be statistically tested. The statistical significance has been examined by using Z-statistic. If the estimated value of Z-statistic is greater than 1.96 and less than 2.58, it is significant at 5% level. If its value exceeds 2.58, it is significant at 1% level. In the event of the Z-statistic being significant, it implies that there is significant difference between the perceptions of customers from public and private sector banks. The value of Z-test in the case of service quality is 3.32, which is more than the standard value, 1.96 at 5% level of significance, so the null hypothesis is not accepted. In other words, there is a significant difference between the perceptions of customers between public and private sector banks.

Z > 1.96
Ho1 is not accepted

Type	Mean	S.D.	Square of S.D.
Public bank	4.526	0.5475	0.2997
Private bank	4.553	0.6083	0.3700

Standard error	0.00821
Z-value	3.32

9. Conclusion

From the preceding discussion it is clear that the differential performance of public and private sector banks in the post-liberalised phase of the Indian economy has, to a large extent, matched the graph of customer perceptions and expectations from each of the two. Further, as the study shows, quality parameters such as responsiveness, reliability, tangibles, convenience, assurance and empathy, and trustworthiness greatly structure customers' expectations and perceptions of banking sector service quality. These factors are similar to the factors identified in Tyler and Stanley's (1999) study, which used orthodox grounded theory in their study with the objective of identifying key elements of perceived service quality by large corporations. They found that the elements that were considered important were reliability, assurance, empathy, responsiveness and proactivity.

Last, managing the perceived quality means that the firm has to match the expected service and perceived service with each other so that consumer satisfaction is achieved. In order to keep the gap between the expected service and the perceived service as small as possible, it is important that the promises about how the service will perform, given by traditional marketing activities and communicated by word of mouth, must not be unrealistic when compared to the actual service delivery that customers will eventually experience.

The study concludes that in view of the stiff competition in the global business arena where businesses have to survive and grow on the basis of volumes, instead of margins, service quality will constitute an essential plank of service marketing. This implies that public sector banks will have to focus on the reduction of the gap in customer expectations and perceptions about their service quality if they are to compete in the global marketplace. To this end, public sector banks should continually assess and re-assess how customers perceive their services to know whether these banks meet or exceed or fall short of the expectations of their customers. Such a customer services quality audit, though tedious, will help the banks to pay attention to potential failure points and service recovery procedure, which could be made integral to employees' training. In other words, it amounts to empowering employees to exercise responsibility, judgment and creativity in responding to customers' problems.

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VIEWPOINT

Evolution of a Leader: The Journey of Ms. Soundara Kumar, MD - State Bank of Indore

Nisha Nair and Radha Ravichandran



Banker by Chance

A young postgraduate student at the young age of 22 years, with dreams of a PhD and a life in academics, entered into banking, almost by accident. Whilst still pursuing her M.Sc in Statistics, she took the bank probationary officers exam without any preparation, almost on a whim when she had to accompany her sister to the test centre. The rest is history. There has been no looking back since that day for Ms. Soundara Kumar, Managing Director of State Bank of Indore.

Hailing from an orthodox Tamil family, Ms. Kumar is the first workingwoman in her family. Her entry into banking was met with some resistance, due to inhibitions about sending her away to Hyderabad for training, seemingly far away from home in Chennai. She joined the banking services with the State Bank of India (SBI) in 1975, 1 amongst 6 women in a batch of 50. She is the only woman of her batch who has attained such a senior position in banking, with some of her early female colleagues having abandoned their careers along the way or opting for less demanding roles due to personal/familial constraints. So what makes Ms. Kumar's journey so unique? What factors enabled her career from taking the route it did, from the early days of stumbling upon a banking career to take charge of the much coveted role of heading a national public bank today?

In this piece, we explore the road taken by Ms. Soundara Kumar, offering some vignettes of her journey and sharing some of her experiences based on our interviews with her and her presentation made to an audience at the Indian Institute of Management Indore, in our attempt to address these questions and also probe further into the evolution of a leader.

Getting to Know Ms. Soundara Kumar

Born on 15 August 1954, Ms. Kumar was married at the age of 22. Her husband, Mr. Kumar, also belongs to the same profession, himself a banker and the CEO of a venture capital firm. He opted out of a banking job to avoid transfers and minimise inconvenience to the family. She attributes much of her success to the steady support and encouragement received from her husband.

Her brilliance and potential was noticed early. She was the only officer from SBI to be selected for the International Banking Summer School in Vienna in 1992. Although it was normal practice to select 10 banking professionals every year from India for the summer school, she was the only one selected from SBI for the event in 1992. Her illustrious career

has seen her heading a US bank (State Bank of California), which is a subsidiary of SBI, on her foreign posting for a period of over 2 years.

Snapshot of positions held and roles essayed in her career

During her long association with the SBI, Ms. Kumar has held various positions and essayed multiple roles. She has risen through the ranks, starting as a probationary officer in 1977, during which period she was exposed to various aspects of banking. She went on to become the Branch Manager in Trichy and subsequently DGM in Chennai, specialising in Personal banking. Following this, she was assigned to the corporate training centre as a trainer. There she was involved in designing and delivering courses to the staff, covering areas such as credit and Non Resident (External) Account (NRE). Her promotion to AGM saw her heading different branches across Tamil Nadu. This was also the period when the bank was getting computerised, which gave her the opportunity to become well versed with the computerisation process in addition to scaling her expertise in other areas of banking such as Forex and small-scale industry. She has also served the bank in a foreign posting for around 5 years, first as in charge of Artesia branch and then as CEO of State Bank of California. On her return to India, she was posted as the GM, Retail Banking and then GM, Rural Business. The rural business stint was particularly challenging and rewarding for her because she was involved in setting up and developing the business from scratch. After rising to the position of the CGM of Small and Medium Enterprises, she went on to become the MD of State Bank of Indore. A chronological list of her roles and designations is shown in Table I below.

Table I: Details of positions held

Period	Designation	Location
1977-1979	Probationary Officer	Chennai
1979-1982	Accountant in a small bank	Chennai
1982-1984	Branch Manager (BM)	Trichy
1984-1988	Assistant General Manager (AGM)	Chennai
1988-1991	Trainer	Trichy
1992-1996	Divisional General Manager (DGM)	Various locations in Chennai, Coimbatore, Mylapore etc.
1997-2000	Regional Manager	Chennai
2000-2002	Senior Vice President, Artesia Branch	Artesia, California
2002-2004	President and CEO, State Bank of California and CEO, Los Angeles Agency	California
2005-2006	General Manager (GM), Retail Banking	Mumbai
2006-2007	Chief General Manager (CGM), Rural Business	Mumbai
2007-2008	CGM, SME	Mumbai
2008-Present	MD, State Bank of Indore	Indore

Personality and interests

Fascinated by numbers, her first love has always been Mathematics. She also nurtures an avid interest in Tamil literature. A music lover, even at this age and stage of her professional career, she attends religious gatherings and evening get-togethers in the community for chanting of bhajans, immensely satisfied to have learnt over 20 bhajans in the process. A yet unfulfilled desire is to complete her M.Sc. in Statistics, left incomplete when she took to banking. Amongst her other unfulfilled ambitions is a desire to do an MA in Tamil Literature and obtain a PhD someday. She describes herself as impatient and contends that she would not make a good teacher given her characteristic impatience and tendency to not suffer fools gladly. A very positive person, Ms. Kumar comes across as highly professional, yet compassionate and understanding towards employees, colleagues and customers alike, and not shying away from being tough when the situation demands.

Some of her choice readings and recommended books include *The Last Lecture* by Randy Pausch, *Working Wonders* by James Joseph, *Fooled by Randomness* by Nicholas Taleb, *Managing from the Heart* by Arun Wakhlu, *Ping - A frog in Search of a New Pond* by Stuart Avery Gold, *Whale Done* by Ken Blanchard and *Execution* by Ramcharan.

Driving force and motivators

A high sense of pride in her work, attention to details, curiosity to learn or venture into unknown areas, the drive to excel and the zeal to be perfectionist in whatever she does seem to be the driving forces for her success. For example, during the computerisation and core banking of the branches under her circle, Ms. Kumar was monitoring/following/learning every-minute detail - be it systems design, operations, processes or infrastructure setup. Her colleagues and superiors have sometimes been surprised and incredulous at other times at her level of understanding of minute details of the bank computerisation process. It is this attention to detail and the eagerness to learn and imbibe when any opportunity presents itself that also set her apart as an employee who brings his/her complete self to work, applying his/her faculties in all directions towards the meaningful assimilation of knowledge within and outside his/her domain of expertise. On what motivates her, she answers that it is definitely not money or promotion!

Very passionate about her job, every assignment and every challenge in itself appears to be the driving force and motivator for her. An attitude of openness and willingness to learn from every opportunity ensures that she seeks out an opportunity to learn from her various roles, whether it is as a trainer at the State Bank's training centre, a branch manager facing the labour union or implementing micro-finance schemes in rural areas. Talking about the time she was posted in Rural Business Group and her visit to Rajasthan, Ms. Kumar notes that under the bank's financial inclusion programme, she was faced with a different kind of reality where womenfolk were not allowed to step outside beyond six in the evening or where mobile phones could not be charged because there was no power in the post office. A humbling experience, symptomatic of the differing social contexts and the huge gap in wealth amongst the urban India and the hinterlands of Bharat, it is assignments like

these that have granted her an opportunity to get to know the problems faced by varied range of people and make a difference in their lives through her work, the satisfaction derived serving as a reward in itself.

Evolving and Maturing as a Leader

Context of work and organisational affiliation

Having made SBI her home, Ms. Kumar is very passionate about her job and the organisation she works for. She notes with pride that she has grown with the bank. Her work and the bank is like a home to her that has nurtured her and where she evolved as a studious learner, loyal and committed employee, co-operative team member, effective trainer and a capable leader and motivator. She also reiterates the fraternity spirit amongst employees, emphasising to all associates that the bank is like a second home to them where they spend most of their waking hours, possibly more than what they spend at home or with their family members.

The culture of the SBI pervades its associate banks as well, with the systems, products, technology and so on continuing to be the same across the State Bank and its associate banks. The 'one-family' culture at SBI has given tremendous internal strength to face any challenge because there is someone to fall back on for guidance and support. The pride of being a public sector bank is so strong that there was never any temptation to look for greener pastures in the cozy environments of new private sector banks. Although there is a strong sense of association, belongingness and identification with the nation's largest bank, there is also the realisation that public banks need to adapt and change to meet competitive demands of increasing private players in the fray.

The current assignment as Managing Director of State Bank of Indore is both challenging and satisfying for Ms. Kumar: challenging because the branches are spread mostly in semiurban/rural areas and there is a lot to be achieved in terms of modernisation, change in attitude, preparing for the merger with SBI and so on, and satisfying because the culture is the same across the State Bank group and the subsidiary is in the process of merging with SBI and leading the change initiative offers unique opportunities. However, she observes that there is seemingly lesser aggression in getting businesses in Madhya Pradesh as opposed to, say, in the South or Punjab where there appears to be a more aggressive drive to get businesses proactively. Commenting on working for a public bank, she notes that although banking in the private sector can be more lucrative, the public sector is also becoming increasingly competitive, being amazingly resilient and the kind of satisfaction and experience that working in public banks provides would be unparalleled elsewhere.

Experience of heading a bank in a foreign context

Amongst her varied experiences, Ms. Kumar has also headed the State Bank of California for over 2 years in Los Angeles, after a two and a half year stint as the head of its Artesia Branch in California. A US bank of Indian origin posed a different set of challenges. Although

the employees were mostly Indian officers with some Latinos, Philipinos and employees of mixed nationalities and origin, the business was primarily from the ethnic Indian community. Growing the business beyond the traditional clientele and expanding the customer base in a different cultural context, with a diverse employee pool, proved a unique challenge. The overseas assignment at Los Angles required a degree of adaptability in terms of culture, market, customer expectations and regulations, to name a few. During her stint as the CEO of the State Bank of California, several new avenues of business, including collaboration with other smaller banks to get big-ticket customers, were realised and the number of branches of the bank grew from three to five. It is here that she learnt the importance of socialising and networking, both professionally and personally. She fondly recalls one such social gathering where heads/officials of small banks of Asia Pacific and Latin American origin decided to join hands to exploit the business opportunities in the region, which would have otherwise been beyond their means in their limited capacity as individual smaller banks.

Leadership style

Although she maintains the need for compassion towards others and a sympathetic attitude towards co-workers and subordinates, she argues that one must know when and where to draw the line. As a leader, Ms. Kumar thinks of herself as a hands-on manager, preferring to be sufficiently involved but refraining from micromanaging. She also notes that as a smaller bank, State Bank of Indore might require more hands-on guidance and involvement of top leadership. She is in support of granting enough autonomy and freedom to subordinates; at the same time, she believes in periodical monitoring of subordinates to ensure that they are conscious of the existence of a 'watchful eye'. She also advocates team empowerment and non-interference as long as the team is delivering results. Her leadership style appears to be a mix of delegatory and participatory leadership. Giving credit to the sustained efforts of teams, Ms. Kumar believes that there is no such thing as a good team or a bad team. The assumption is that every team will have its share of good and bad elements and that it is up to the team and the leadership to ensure that the team performs well.

Low tolerance for misbehaviour/unethical behaviour

A clear signal that Ms. Kumar gives out to employees is zero tolerance for unethical behaviour. Engaging in a fraud or unethical behaviour, however small, will be dealt with equal severity. She subscribes to the belief that an erring employee, even if he/she engages in a small fraud involving only Rs. 500, is equally culpable as a more serious offender involved in a fraud of a larger denomination because the tendency to engage in deviant acts will always be there if the value systems are weak. If offences relating to unethical practices are excused or pardoned at the first instance, those engaging in such acts are ever likely to engage in fraudulent acts in the future. Quoting the Tamil poet Bharati, she translates that a burning ember hidden in the crevice of the bark of a tree will still set the tree aflame because even the bud of fire will carry the tendency of fire. Thus, weak value systems are the most damaging to the organisation. She therefore believes that the most valuable asset to an organisation is the integrity and value systems of its employees.

Driving a culture of customer orientation

There have been instances when Ms. Kumar has suspended a union worker who had misbehaved with a customer. Although this would have signalled a union backlash and might have seemed a tough decision at that point of time, it was necessary to drive home the message of good customer service. Essentially where the integrity and reputation of the organisation are at stake, then a firm rigid stand is what is required. Empathy and consideration are reserved for when employees face personal problems.

In another instance, a disgruntled customer walked in and starting shouting at her. Whilst his tirade went on, she calmly listened to him. Composed and not letting her ego take the better of her, she asked the customer to go have his lunch and come back. Even though it did not pertain to her area of work, she took the angry tirade directed at her, all the while maintaining her cool. Although she herself was surprised at being able to hold her temper, to her amazement, the customer many years later wrote her a letter from Kuwait congratulating her on the way she had handled the situation on that particular day. This has been one of the greatest lessons for her in terms of always keeping the customer happy.

Customised approach to conflict management

Handling a conflict situation, according to Ms. Kumar, is contingent on the need of the hour as per the situation and the context; with a diverse repertoire of conflict handling styles a necessity for an effective leader. A flexible compromising approach may be required whilst dealing with customers as discussed in the earlier-cited example, collaborative approach whilst working in teams and a dominating or tough approach when having to deal with difficult employees or with unions. On the issue of the union opposition to the merger of the State Bank of Indore with SBI, she has had to take a tough approach keeping in mind the long-term interest of the survival of the bank, although it may have been unpopular with the union at the time. A leader is often called upon to make tough decisions, sometimes against the dominant popular view. It is precisely in situations such as these that the vision and judgment of the leader are challenged and most needed.

Life as a 'Woman' banker/leader

With a perception of being a tough person to work for, the joke when Ms. Kumar was serving her stint in Chennai was that she was the only 'Man' around. Although this could well be a compliment on her ability to take tough decisions, it also reflects the stereotyping inherent in our frames of referencing where acting tough is a male prerogative. For women in leadership positions, it is also symptomatic of the dominant view that top jobs, having always been the preserve of men, require women in these roles to take on a masculine approach or male posturing in order to be successful.

Although Indian banks have had very few women at the top management level, according to Ms. Kumar women leaders are effective and able to bring diverse skills to the workplace.

She observes that at her level there is less prejudice around women in leadership roles, noting that Indian culture is not alien to women leaders and history is laden with examples of queens such as Rani Laxmibai having ruled over their people and even going to war. Similarly, the ancient practice in India of women also being well versed in the highly revered Vedas is indicative of the treatment of women at par with men in matters of the state and even religion. Although women in top leadership positions is not new to the Indian tradition, there is however a general perception, particularly at junior levels, that for women their priority is family and work is not as central to them as perhaps their male colleagues.

Although there may be no obvious gender bias in the organisation, in their attempt to counter the general perception of women being more family oriented, women officers often tend to work doubly hard. Exploring this notion of the double bind that most women feel, Ms. Kumar notes that women often face guilt on two fronts. If they happen to leave the office early on a few occasions to attend to family matters (even though this may be a rarity and, in terms of productivity, they may have put in as much with fewer breaks than their male counterparts), they still experience guilt owing to their perceived neglect of work. Alternatively, when they work late to attend to work-related pressures and deadlines, they experience guilt again when family time and attention suffers. This is an ongoing tussle that most women in the workforce experience; it only gets exacerbated for women in leadership positions with added responsibilities and time constraints, targets and deadlines to meet. In spite of these irreconcilable commitments, women often bring a unique perspective and other strengths to the job, such as emotional intelligence, compassion and empathy.-

The flip side of having a woman boss is that women employees sometimes feel they can get undue support from female bosses on compassionate grounds. This is an expectation that Ms. Kumar has had to resist in her career in order to remain objective and impartial to employees irrespective of gender. She also notes that she has had no issues in working with male colleagues or subordinates in her entire career. Most of her bosses have been men and she considers herself lucky to have always had very good bosses, whose encouragement and appreciations have helped her to learn, grow and rise up to their expectations.

Support system

Giving credit to her family, especially her husband who stood by her, even at the cost of his own career ambitions, Ms. Kumar attributes her family and husband's understanding and support to being able to pursue her career choices. Although her mother-in-law has been quite understanding and helpful in taking care of her sons during their formative years, her husband has been a pillar of strength throughout. It also helped that her parents were in the same city as the in-laws and therefore could together attend to the children. Her husband, also in the same banking field and himself a CEO of a venture capital firm, chose to have his career take a backseat. He not only left his job to stay back and support her career choices by taking care of the children, sometimes preparing meals on those occasions when she would come back from work at 1:00 AM at night, but also moved to the United

States when she was assigned to the State Bank of California in Los Angeles. She spent 5 years in the United States, of which 2 years her husband was unable to take up a job due to legal requirements and work permit regulations. Taking on the role of a CEO of a public bank and addressing its attendant commitments has not been easy for Ms. Kumar. It is the presence of a support net that includes the spouse's involvement, encouragement and sacrifices, and a supporting family that has facilitated the focus on career and rising to meet the challenges of a leadership role.

Evolution amidst challenges

If we look at the career graph of Ms. Kumar against events in her own life or personal/family progression, there are some unique insights for what goes into the making of a leader. Figure 1 attempts to map this career and life progression.

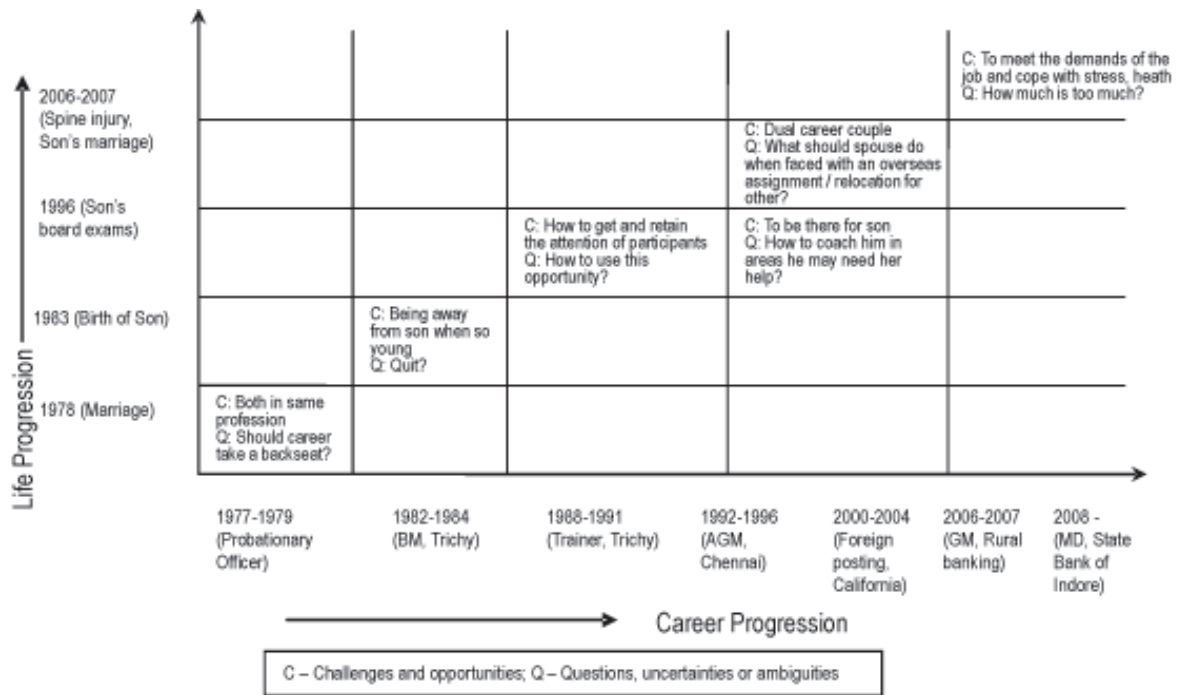


Figure 1: Career progression versus life progression with challenges and opportunities

As shown in Figure 1, one of the challenges facing Ms. Kumar during her early career was how to balance work demands and her personal life, her husband also being in the same profession. Although at this point she chose not to let her career take a backseat, it helped that her husband and family were quite supportive of her decision and enabled her to take on the demands of her work through their support and co-operation. In 1982, she had to move to Trichy and stay alone. This was a particularly trying period, with the birth of her son in 1983 and having to work from Trichy away from her child and family. Although she would frequently travel from Trichy to Chennai and knew that her husband and family were there to take care of her child, it was still an emotional period for her,

holding back the tears till she boarded the train to take her away from her child and family. There were moments at this point when she did think of quitting, but her husband encouraged her to continue and not give up her career, assuring things could be managed. Even her second stint in Trichy as a trainer was particularly difficult because her son was just 5 years old then, and the first year in a new role also brought with it added responsibilities, challenges and learning opportunities. During this period, she found solace in learning music, trying to keep stress, depression and guilt at bay. Another period that was personally difficult for her was when her son appeared for board exams in 1996. Although she would have liked to help him with his preparation, especially in Mathematics, being in Coimbatore at that time she was unable to do so. She also contemplated quitting around this time, but again her husband coaxed her out of it, arguing that the period would pass and that she still had a promising career ahead.

As a trainer in the corporate training centre, Ms. Kumar was foraying into unfamiliar territory. A challenge faced then was how to be an effective instructor and sustain the interest of the class. With her hard work and drive, investing considerable time in reading up on various topics and building exercises and material for each class, she was able to convert this challenge to an opportunity for her personal growth. Looking back, this period had been an exercise at innovating around her work when her own creativity was challenged. Even today, she gets requests from other trainers to use her slides and material prepared for classes then.

The move to the United States for her foreign posting threw up another set of choices. Shifting to another country for work was a difficult choice, given that both she and her husband had successful careers and only one of them could move in their current job. Although her husband made the decision easy for her by choosing to quit his job and move with her, it was not an easy decision. It has been the sacrifice of an understanding spouse that facilitated her tough decisions when the call of work required making compromises at the family level.

Leading the rural business of SBI has been one of Ms. Kumar's most challenging assignments because she has built the business from scratch, right from strategic planning to execution to the minutest details of thinking through all possible eventualities and providing for their mitigation. This was totally new for State Bank at that time, and she was involved in building things from the ground up. As part of her work, there was considerable travel to various parts of India, especially rural India. It offered an opportunity for her to learn, see India and affect and influence the lives of so many, working as she was on financial inclusion. It also made her work particularly meaningful. Around this time, the bank was also introducing the smart card for the first time in which she was involved. This gave her an opportunity to learn about the technology involved, right from the basics of biometrics to the details about the transfer of information and servers. She has come to master most of them over time.

Taking on the multiple roles required of her during her career has required sacrifices at the personal front, for both Ms. Kumar and her family. Beyond the choices she and her family were able to take to make the journey possible, it has involved making compromises

on her personal front and also her health. Whilst visiting remote places for business development, she was at one point travelling for 25 days of the month. She used to experience pain in her back and would literally cringe and cry when the car would travel over speed breakers, taking three painkillers a day to keep the pain at bay. When she returned to Mumbai and her husband insisted that she get herself checked, to her dismay it was diagnosed that three of her vertebral columns had disappeared and one was only partially there. The shocked doctor immediately advised her to get admitted and operated, warning that she could suffer a stroke anytime and ran the risk of becoming a quadriplegic. She underwent an operation the same day and had to have a metal plate inserted along her spine. That she was able to continue her work in spite of her deteriorating health is itself a marvel. Her dedication and commitment to her work kept her going in spite of many warning signals to her health. Allowing the stress of work to build and continuing to let it affect her health, while on one hand may be viewed as negligence on her part, also reflects an occupational hazard for people in leadership positions, where choices of taking it easy are sometimes never there. Taking on a leadership role has its flip side too. Ms. Kumar still feels for her inability to devote time to her children during their formative years like any other mother. She also regrets her absence during the crucial stages in their life. There appears a tinge of disappointment in her tone when she speaks about the comfort level her children share with their father, reminiscent of a lost opportunity that pressures of work denied along the way.

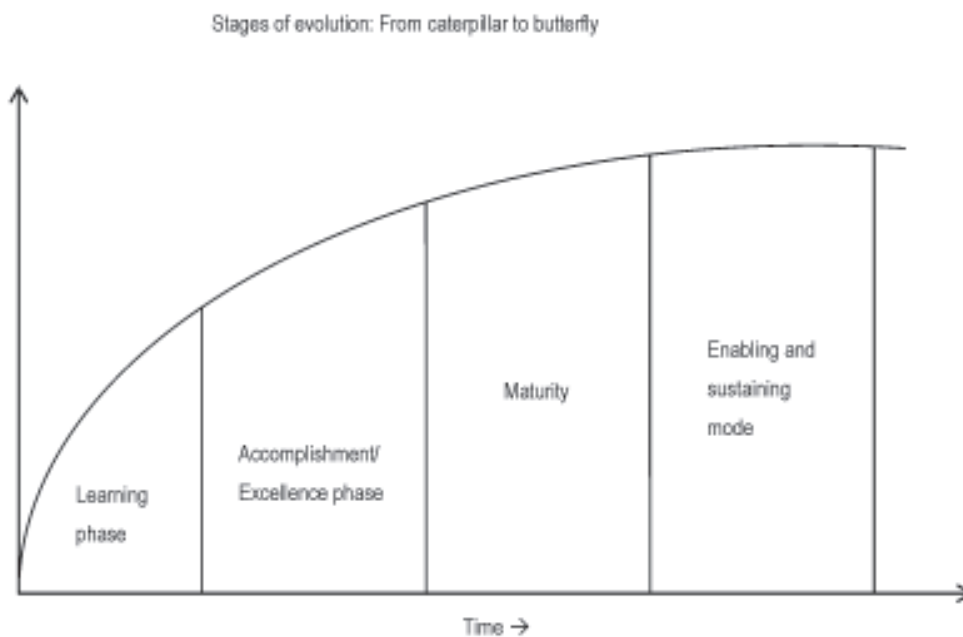


Figure 2: From caterpillar to butterfly – Making the journey possible

Evolving as a leader does not come easy and the choices made at critical crossroads of life determine to a large extent whether one has the gumption to take on the challenges of being a leader. It is likely to involve sacrifices at the personal level, requiring tremendous amount of tenacity and will to continue on the journey.

If we look at the journey of Ms. Kumar, her metamorphosis from the uninitiated caterpillar to the butterfly catapulted to a coveted leadership position today may be mapped out in terms of the stages of evolution as shown in the Figure 2 below. Figure 2: From caterpillar to butterfly - Making the journey possible

The early stages of her career were marked by considerable learning when she was engaged in understanding various aspects of the business, learning to manage a branch, foraging into various areas such as training and essentially learning the ropes of the business and her work. The learning curve was quite steep in this phase of her evolution. The next stage can be characterised as the accomplishment or excellence phase, where having learnt the intricacies and nuances of managing, her growth is marked by achieving excellence in what she does. This is evident in her developing requisite skills towards becoming an accomplished trainer, receiving various promotions such as DGM and Regional Manager and being given the responsibility of heading a foreign branch. The next stage may be termed as the maturity phase where integration of previous learning happens and is applied to develop and grow new businesses such as her championing the rural business initiative. At this stage, she appears to have evolved as a mature leader who is well recognised for her accomplishments and is deemed ready to take on the role of heading a new business. As she continues on her growth path, the mode is one of enabling and sustaining her skills, capabilities and competencies to be applied in meeting new challenges in different domains such as heading the small and medium enterprise business and even in her current role as the MD of State Bank of Indore. Along the way, various experiences in the form of handling irate customers, managing unions, bank computerisation process and cross-cultural exposure have helped build her repertoire of skills and competencies for evolving as a leader. Her individual commitment and passion for her work, ability to cultivate varied interests in music and literature that provide the much needed outlet to handle stress from work, and a personality and value system anchored in honesty, sincerity, openness to learning and amazing resilience and drive to excel have amply helped in her journey and continuous evolution as an able leader.

Insights for Future Managers

Synthesising her learnings through the years across different roles, Ms. Kumar comments on the process of managing and leading in terms of a few values and tips for effective management.

Organisational interest above personal interest: Recognising what the organisation gives to the individual and the obligation that the individual owes to his/her provider, employees ought to put organisational interest above personal interest, whenever the two are in conflict.

Respect for team and respect for others: With the increasing need for people to work and collaborate in teams, there has to be awareness of the mutual dependencies and respect for the functioning in teams along with respect not just for superiors but for colleagues and subordinates as well. This is essential to evolve as a better human being and also to make the organisation a better/more cordial place to work in.

Giving back to society: Emphasising the need to give back to society, Ms. Kumar urges the youth to also focus on returning something to one's school/alma mater/village or the community in general because every trickle adds to the ocean. A sense of humility about the various hands, visible and invisible, that have shaped our destiny and a willingness to give back in whatever form or capacity our work or limited resources allow will engender a better society.

Culled from her varied and rich bank of experience, Ms. Kumar offers some pearls of wisdom for budding managers of the future in terms of what they don't teach you in business schools or formal training programs - *Tips from a Practical Banker*. These are listed here in the form of rules she has framed or insights from her experience.

Insight No 1 - Never outshine your boss

What it means: Always make those above you feel comfortably superior. In your desire to please and impress them, do not go too far in displaying your talents or you might accomplish just the opposite - instill fear and insecurity. As Robert Greene in *48 Laws of Power* says, 'make your masters appear more brilliant than they are and you will attain the heights of power'.

What it does not mean: Be a Yes Man!

Insight No. 2: Don't say more than you HAVE TO

What it means: The more you say, the more common you appear - and the less in control. Successful people impress and intimidate by saying less. The more you say, the more likely you are to say something foolish. Nothing is opened more often by mistake than the mouth.

What it does not mean: Lack the courage to speak out when you have to.

Insight No 3: Listen to the grapevine

What it means: Use the grapevine effectively, to your advantage. The grapevine has a number of advantages such as rapid dissemination of information, quicker feedback, developing group cohesiveness and working when formal communication does not work. However, some of its drawbacks are that it is based on rumours and hence may not be trustworthy, and it is not a clear depiction of facts, which can affect productivity and can hamper goodwill of the organisation. Effective managing and leading requires an awareness of the grapevine and its strengths and weaknesses. Practices such as taking lunch with the junior staff, going on team picnics and so on are also ways of being keyed in to the grapevine. What it does not mean: Encourage gossip, take decisions based on information from this channel or contribute to this channel.

Insight No 4: If you are not networking, then you are not working

Networking is an often underutilised resource. It is a useful tool to create awareness and build alliances and resources. Not only does it put one in touch with people facing similar issues but also provides information not popularly found in the mass media, facilitating the generation of multiple ideas and perspectives on a problem and serving as a channel of communication at various levels.

Insight No 5: Be firm but flexible

The famous quote of Henry Ford, 'people can have any colour car they want as long as it is black' is a pointer in this direction. As leader, one has to try to build in some flexibility without losing the ability to be firm when required.

Insight No. 6: Take some time off during work to waste a few minutes (Well, not really...)

What it means: Every now and then go away, even briefly. Have a little relaxation, deep breathe, stretch or walk around, for when you come back to your work your judgment will be surer. Leonardo Da Vinci has said 'if you remain constantly at work, it will cause you to lose power', and Lao Tzu advised 'Practice not doing, and everything will fall into place'.

What it does not mean: Break from work does not mean cessation of work or end to productivity; it can also mean opportunity to excel.

Insight No. 7: Sharpen your axe

Abraham Lincoln has said, 'give me 6 hours to chop down a tree and I will spend the first 4 sharpening my axe'. Sharpening one's axe is focused on doing the groundwork well, preparing for work being as important as the work itself. Avenues such as reading books, tapping and using resources such as the Internet and blogs are useful devices that ultimately go a long way in sharpening the axe.

Conclusion

A successful woman in banking, essaying multiple roles at different times of her career and in her non-work life juggling the roles of a mother, daughter or spouse, has not been easy for Ms. Kumar. It has taken tremendous grit, courage, brilliance, drive, ambition, sacrifices and a support system that has nurtured and facilitated the career graph and an environment and work context that impels and provides opportunities for continuous learning and growth. The profiling of Ms. Soundara Kumar as a woman leader at the helm of a national bank is intended to portray her success story as well as open a window to a different world through a unique lens provided from the perspective of a woman leader.

Interspersed also are her unique tips and lessons for practising managers in a manner and style characteristic of her candid nature. What we each take away from this portraiture depends on our own worldview and willingness to engage and learn from the wisdom of already chartered paths.

Acknowledgements

We would like to extend our sincere thanks to Ms. Soundara Kumar for taking the time out of her busy schedule to sit with us for the interview on more than one occasion. Special thanks to Prof. Ravichandran for mooted the idea for this article and his many comments and suggestions towards improving this piece.

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Management Case

Quo Vadis - The Retail Hub Business of National Bank

Shubhabrata Basu

I. Introduction

There was a perceivable level of uneasiness and apprehension pervading the 30 odd senior managers of National Bank¹ (NB) participating in the Management Development Programme at Indian Institute of Management Indore. The stimulus that triggered this discomfiture amongst them came from one of the course instructors who made a passing inquiry into the adoption of information technology (IT) strategies and its effects on the retail business of the bank. To that query, the participants clearly towed two lines and the class discussion gravitated from the effectiveness of the bank's IT strategy implementation towards the rationale of setting up the 'Hub and Spoke' structure for retail banking business. A wide range of issues subsequently emerged centring round the aforementioned core issue. The issues spanned from subjective observations at the microlevel to objective statements, supported by facts and figures, affecting the whole organisation.

Although the discussion was lively, it was becoming increasingly apparent that there are several dimensions, worth exploring, that are affecting the operational effectiveness of the bank. Although some of them are common in organisations under transformations², those pertaining specifically to the Hub and Spoke structure for retail business promised some unique perspectives.

To begin with, why is it that inadvertently (or otherwise) an inquiry into IT process implementation got diverted towards a newly implemented structure (the retail Hub and Spoke) of the bank?

Why it is that at least half of the representing senior managers felt that the same structure is affecting the effectiveness of the bank as a whole? If indeed it is affecting then how is it so? Controlling for the fact that the Retail Hub and Spoke structure is not a novelty in Indian context, then are the implementation issues something idiosyncratic to the bank? If indeed it is bank specific, then what internal factors either in terms of systems, structure, process, or people and culture, amongst other things, are impeding the adaptation of a time-tested business model?³

Cases of Indian Institute of Management Indore are prepared as a basis of class discussion. Cases are not designed to present illustrations of either correct or incorrect handling of administrative problems.

- 1 To maintain the confidentiality of the organisation and its various stakeholders, the name and other distinguishing information are disguised.
- 2 We are assuming that National Bank is in the process of transformation from pre-liberalization era public sector bank to Net-centric Bank with multiple channels of service deliverables
- 3 To seek an answer to the issues identified above, and with the caveat that newer issues may be identified in the process; an exploratory case study is undertaken. Cross sectional primary data was captured through in depth interview with the participating managers whereas longitudinal data was collected from secondary published sources. The 30 participants, all at the AGM rank, were deemed to be appropriate data sources as they are at the forefront of policy implementation of the bank with respect to the Retail Hub and Spoke structure.

To explore the above-mentioned issues, it is deemed imperative to delve into the factors linked to the evolution and legacy of the bank as a national endeavour against colonial economic priorities.

2. Evolution and Legacy of the Bank

The Swadeshi Movement in India spawned many institutions of subsequent national repute, NB being one of them. The celebrated Lala Lajpat Rai at the instance of Rai Mul Raj of Arya Samaj, along with a few selected friends, founded this bank as an Indian Joint Stock Bank. It was founded in the month of May 1894 at the residence of Sardar Dyal Singh Majithia who became the first Chairman of the bank.

The 14 original shareholders and the 7 directors took a modest number of shares leaving the control of the bank to large and dispersed shareholding. The promoters contemplated on professionalism in management as opposed to profit appropriation by the promoters. In the initial years, the bank's focus was primarily into trade, financing and agricultural loans in the undivided Punjab state along with what constitutes the present western Uttar Pradesh. Consequently as a legacy, its stakeholders, both internal and external, were primarily drawn from the western part of the Indo-Gangetic Plain. Subsequently, it expanded along the whole length and breadth of the Indo-Gangetic plains and beyond with a focus on agricultural loans in the aforesaid region. A brief fact file on NB's subsequent progress is appended as Appendix A1.

3. Economic Liberalisation and Competitive Pressures

The economic liberalisation and banking deregulations introduced new players from non-banking sectors into the banking industry. New private banks of Indian origin entered the industry with a portfolio of allied services backed by novel technological platforms. The Indian private banks imitated the retail boutique model, hitherto the user selling point of the foreign banks, and scaled it up. The rules of competition in the banking industry were changed from marginal adjustments in the interest rates, scale of operation and safe-banking norms as characterised by public sector banks to scale, scope and experience of services. The private banks focused on acquiring the corporate and High Net-worth Individual (HNI) clients of the nationalised banks and, for a while, were successful in having the same. The relaxation on upper limit of interest chargeable, inter alia, also appeared to have favoured the non-nationalised Indian private banks.

4. Reconfiguration and Diversification

Faced with enhanced competition NB contemplated on a four-pronged strategy to counter competition. The strategy consisted of (a) centralisation of the back office, (b) a Hub and Spoke set up for the retail (non-trader) business, (c) setting up an integrated risk management system and (d) followed by restructuring the four-tier system to three-tier system (Please refer Appendix A2). As explained by one of the attending executives, these steps were planned to reconfigure the bank and closely emulate the business model of private banks

with an intention of out-scaling them in operational aspects. In the whole exercise, technology played the pivotal role in implementing the bank's aforesaid strategy.

4.1 Technology-enabled expansion

Having identified technology as the primary differentiator of the private competitors, in terms of value-added services, NB endeavoured at 100% 'Branch Computerisation'. NB implemented the Core Banking Solution (CBS) with the help of Infosys and introducing the facility of 'Anytime Anywhere' banking available to more the 2,000 rural branches across the country. The CBS platform also enabled diversification and economies of scope such as enabling customers to access a variety of services such as Internet banking, booking tickets, bill payments and so on. It also built up a network of 2,150 Automated Teller Machines (ATMs) across the country, which is the largest nationalised bank network apart from the SBI.

The technology platform facilitated NB's policy imperative towards inclusive growth into the Indo-Gangetic belt. It has launched a drive for biometric smart card-based technology (with the help of BC/BF) for the 'financial inclusion of the last mile customer'. Its partner, BC/BF, shall address the outreach issues whereas technology is expected to provide cost-effective and transparent services. This initiative is intended to facilitate marginal groups such as vegetable vendors, construction workers, rickshaw pullers and the like.

4.2 Technology-induced business reconfiguration

Enabled by technology, NB reconfigured its business into personal banking, social banking, business sector banking (small and medium-sized enterprise and trade financing) and corporate banking. Albeit it has not, as yet, entered the insurance sector like its peers SBI or ICICI Bank, it is into the retail home loan and car loan businesses to obtain a share of that rapidly increasing business pie. Initially, the loan processing and disbursal formalities were performed at the respective branches. However, as pointed out by one of the senior managers:

... the apparent boom in the housing loan business got us carried away. It was not only us who suffered, rather it was an industry wide phenomenon. The same house was sold and resold umpteen numbers of times. With the best of interest of the bank in our mind, we could not sieve out the fake from the real. With pressures to meet the targets set above, the concerned officials were fully worked out. One out of hundred loans that were disbursed might have gone wrong. However, at the aggregate level that was a large number ...NB's net non-performing assets (NPA) in relative terms registered an increase of 3.86% in 2008 over 2007 before reducing by a significant 64.98% in 2009. Some of the financial figures and ratios of the bank are provided in Appendix A3.

Although technology was used to harness economies of scale and scope, its usage towards streamlining the existing work processes were not in place. To eliminate such structural inconsistencies and minimise the recurring incidences of irregularities in the retail segment,

the then Chairman of NB, Dr. C. K. Chatterjee⁴, took a decision to implement the 'Hub and Spoke' structure for disbursal of retail loans.

5. The Retail Hub and Spoke Structure

The Retail Hub of NB was created to centralise and standardise the loan processing and disbursal activity. The retail Hub and Spoke structure at NB has its reflections in a similar structure adopted by the State Bank of India to deal with its retail lending business.

5.1 *The traditional lending process*

Prior to the implementation of the Hub and Spoke structure, the local branches on a demand-pull basis processed loans. Prospective loan seekers would come to the local branches to apply for a loan. The branch's front desk would collect the loan application form and other supporting documents, make the initial scrutiny and processing and forward the same to the officers.

The branch's sanctioning authority would perform the second-level scrutiny, check the aspirant's collaterals and call for any additional details as it deemed fit. The sanctioning authority could, at his convenience, make necessary field visits or verify the genuineness of the loan claim through an independent agency, the charges of which were to be borne by the applicant. After fully satisfying himself about the genuineness of the case, the sanctioning authority would approve the loan, depending, inter alia, on the paying capacity of the aspirant. This arrangement worked under conditions of moderate demand and with a workforce dedicated to its designated routines.

5.2 *The Hub and Spoke Lending Process*

The Hub and Spoke arrangement adopted by NB is intended to cater to two interrelated objectives, namely (a) a dedicated structure to match the expanding retail banking segment and (b) encourage expansion in the aforementioned segment without jeopardising the bank's safety norms. Under the new arrangement, the individual branches would employ marketing teams to acquire customers seeking loans. The marketing team would obtain the requisite documents and information from the loan aspirants, for personal verification, and forward the same to the Hub for processing.

The dealing personnel at the Hub will scrutinise the documents for completeness in all respect and run the preliminary Real Time Blacklist (RBL) score check. If additional information is required then the same is intimated back to the Spoke and the marketing team of the Spoke shall collect the same from the client and forward it to the Hub. If verification yields the aspirant ineligible, then the Appraising Officer at the Hub shall intimate the Sanctioning Authority for formal rejection and the same is intimated to the concerned branch.

⁴ Identity is disguised to maintain confidentiality.

If, however, the scrutiny yields positive results, then the Appraising Officer shall enter the loan aspirant's data to processing software to get the evaluation score on credit worthiness. Thereafter, the Appraising Officer shall call on the two referees of the applicant to establish credentials. This process is followed by initiation of procedure for sanction letter and call for collaterals and property documents which the Spoke shall collect and forward to Hub. The Hub shall verify the legalities of the document and the valuation of the property. If it finds irregularity, then the application is rejected and a letter is issued to concerned branches. If the application is found correct in all aspects, then the Appraising Officer shall put up the note for sanction and send the same to the Spoke and the customer. The Spoke, on obtaining the clearance, proceeds with the disbursement of the loan. A process flow diagram of the entire transaction is presented in Appendix A4.

Another activity that happens parallel to the above is the generation of a reference number that is captured in the integrated risk management system, for future tracking of the customer's account. All transactions related to that account will be captured and the same is added to the bank's database for future references of the customer's credit worthiness.

5.3 Logic of the Process

Although the new Hub and Spoke arrangement of loan disbursement is iterative, necessitating continuous and sometimes-unsuccessful engagement between the Hub and the Spoke, its utility is acknowledged by many a senior manager. Justifying the necessity of the Hub and Spoke model that significantly reduced the NPA in the current year 2009 over the past 2 years, a senior manager also added that the system:

... shields the concerned loan sanctioning and disbursing manager against allegations of irregularities and malpractice. Also by removing the loan sanctioning authority from direct contact with the proposed customer, undue influence on the sanctioning authority could be averted, thereby bringing objectivity in decision-making process ...

Another senior manager opined that:

...the private and the foreign banks continued to have the share of the corporate and HNI clients as they operate at a level of flexibility, which we cannot. We, being government banks are bound by more compliances than our private competitors. Thus the preferred avenue of growth has become the retail segment. This implies more of mass business than class business. We are dealing with numbers - large numbers. And we are short of right staffs. We cannot outsource like ICICI and therefore our managers are stressed out. Therefore, the retail Hub was a welcome change for the overloaded bank officials who, over and above their standard jobs, were required to increase their risk exposures in retail business...

Also, a centralised Hub, as stated earlier, would facilitate the collation and centralisation of customer information. This was deemed necessary in the wake of the changing role of the customer, especially in the HNI segment, who demands a cache of services from the bank and is liable to attrition. A centralised database will not only help in customising

solutions, but also check the credit worthiness of the customer.

To this end, access to the centralised database was made available at the branch level for ease of operation and verifications.

6. The Problem Within

The establishment of the retail Hub model in NB appears to have created stress within the system. For one, the managers are divided on the utility of such a model, given the legacy of the bank. Second, as a corollary to the aforesaid phenomenon, the executive cadre of the bank has become a divided lot over the question of technology-based centralisation versus decision delegation based on human judgment and relational capital. The following appear to corroborate the above-mentioned phenomena:

6.1 Credit shyness

Some of the managers at the branch level have allegations over the credit shyness of the dealing personnel at the Retail Hubs. They allege that the inability of the Hub to process and sanction loans is resulting in the attrition of valuable customers. This problem magnifies when the customer seeking loans has institutional connections and the bank has relations with that institution. Treating such a customer against objective parameters at the Hub severely compromises relationship banking and consequently affects the bank's brands.

Against this allegation, the other side vociferously claims that their entire career could be ruined by a single bad loan, if they are to entertain requests from their branch-level peers. They cite instances when the retirement benefits of the bank executive were withheld against pending enquiry into alleged irregularities. One of the executives stated:

... our credit rating is used by customers to obtain loans from other banks. The market holds us in such high esteem. How can I compromise with such a high standard and why at all shall I do so ...

6.2 Leadership change

Some of the managers cited at the change in leadership as one of the key reasons for the problem in Retail Hub Business. The then Chairman of NB, Dr. C. K. Chatterjee, took the initiative of the Retail Hub. However, following his posting as the Deputy Governor of the Regulators, the post of Chairman (at the time of writing the case in August, 2009) is lying vacant and a firm decision on the Retail Hub is missing. Several managers opined:

... our present Executive Director is trying his best for the bank; however, he has his own limitations. After all, he is the first amongst equals. Also, we don't know whether the new CMD will commit himself to the deeds of his predecessor. Suppose, he prefers otherwise, then a large segment, who are in favour of the Hub, may be in trouble ...

6.3 Inappropriate follow-up actions

During a brainstorming session on Strategies to Improve Market Shares of NB, one of the managers brought out an insight from the bank. It concerns the lack of follow-up actions to each strategy that the bank has formulated and implemented in the short run. He stated,

...we started the Gold Coin Scheme with such fanfare. We made such tall claims and projections. What happened next? Did we follow it up...

6.4 Incentives and rewards

The bank executives have a strong opinion against the current Incentives and Punishment System practised at the bank. Several managers very strongly voiced the following concerns:

...I am supposed to sanction loans and that too on a large scale. If I decline the loan application, my peers scream foul and if by any chance that loan goes bad, I am finished. If I am punishable, then why can't I be rewarded on a yearly basis, if none of my judgements go wrong? The bank makes money; my branch peer gets his share while doing routine work - why not me? This skewed system forces us to save our skins first at the cost of the bank...

6.5 No Respite from paperwork

Contending on the issue of credit shyness at the Retail Hub, one of the executives stated:

... although we are at par in technology with say ICICI Bank, yet private banks do not stress on 'Hard Copy'. Our first quarter goes on generating reports of all kinds. These are compulsory items for compliance. Therefore, effectively we have 9 months to do our job. We may have bought the technology, but people's mindsets have not changed. We still prefer hard copy to soft copy...

In a brainstorming session, one of the executives reflects back on a junior probationary officer of NB who left the organisation to join ICICI Bank. In an informal conversation with the aforesaid junior, that executive learnt that one of the primary differentiators in the operating culture of the two banks lies in the realisation of the potentials of technology. The junior probationary officer does not apparently spend the first quarter generating reports.

6.6 Inappropriate staff

An almost universal feeling prevalent in the executives at the branch level pertains to the quality of manpower at the Hub. One of the more vocal senior managers preferred to call the posting at the Hub as 'Punishment Posting for the Delinquent'. Another supported by saying:

...it is for those people that the need for the Hub was felt. Otherwise, everything was working fine...

There was, somehow, consensus with the sentiment on the inappropriateness of the quality of manpower, when another executive stated:

...when the plan for the Hub was floated and the manpower requisition was called for, we did not send our right hands. After all no manager would prefer to lose his reputation by being the unwitting donor. So those people whom we felt were dispensable, were sent from each branch. This is an open secret...

Yet another manager brought out another aspect of the posting at the Retail Hub. It concerns the age of the population and their ability to learn and adapt to changes quickly. That manager mentioned:

...we did not have fresh recruitments for quite some time. The average age of the people is between 40 and 50. In a public sector, we learnt our trade by writing into the ledger. If you expose such a population to computers and networks, it will take some time at least before they can overcome the fear of the unknown and then work efficiently. The Bank does provide good training - but there is a difference between a training which is a one shot exercise and continuous honing of skills without making a mistake. Here, making a mistake can cost you your hard earned retirement benefits. We need young men for the Hub. We need to recruit...

6.7 Art versus science

Some of the managers, posted in the branches, resented the loss of thrill associated with a successful transaction. They felt that the intensive investigation associated with each retail transaction was no less exciting than a thriller. And the fact that the good man does not always win rendered the game even more exciting. As one manager put it,

... agreed, the process depended on subjective decision-making which was not full proof; also there were risks involved which could ruin careers with commensurate loss to the bank. But then, that was what we are supposed to do. Else, how are we different from any Tom, Dick and Harry...

6.8 The cultural dimension

One of the executives, over an informal discussion with the case writer, brought out a cultural dimension to the problems of the Hub. NB for a long time had a legacy association with the northwestern part of India. Consequently, most of the top management cadre, for a while, had been from that particular region. Regional culture appears to have dominated the process of doing the banking business at NB till such time, as the trend was changed.

The trigger for change was the succession of a chairman who did not belong to the aforesaid region. It was during the tenure of this chairman, Dr. C. K. Chatterjee, that technology-based banking solutions were increasingly used as a response to enhanced private

competition. Implementing the Retail Hub was his decision as stated above. The aforesaid executive played the devil's advocate by exclaiming:

...it is NB's legacy culture that is killing the Retail Hub - no other reasons...

7. Way Ahead

NB's Retail Hub, aimed at efficiency and effectiveness, appears to have been beset with problems, some of which are highlighted above. There are fortunately some executives who are sympathetic to both the sides and have adopted a conciliatory gesture. They feel that inappropriate role definition lies at the root of the problem. Therefore they feel that:

... instead of patrolling the border, lets share the responsibility. Let the branches (Spoke) also take a call and recommend based on their field experience, instead of simply forwarding the document. Therefore, due weightage should be given to subjective perspectives of the Spoke and a procedure driven objectively arrived in view of the Hub personnel. Collective wisdom through consensus should decide the final outcome on sanction and disbursal of retail loans.

But regarding the internal structure of the bank, the question remains, could such a consensus be arrived at in the first place? Second, if the branch recommends and the Hub rejects, will it precipitate higher order disunity within the organisation? Third, what protection mechanism will NB require to guard subordinate personnel from superiors who will construe aforesaid routine procedures as infringements on hierarchical privileges?

Complementing the internal issues, some key issues regarding the bank's competitive environment remain unresolved. If facts and figures suggest a decrease in NPA, then at what percentage of rejection of applications had the decrease in NPA been achieved? How much have NB's competitors gained from this rejection of applications? Last but not the least, given that the Hub cannot recommend applicants, then how much loss of customer relationship has the front desk and, by extension, the bank accumulated at the aggregate level?

Appendix A1: Some quick facts on NB

NB is the third largest Commercial Bank of India and, barring the State Bank of India, is the largest Public Sector Bank of the country.

It has 4,668 branches with 238 extension counters and 3 overseas offices, with an AUM: Capital base equal to 0.67 and capital base of Rs. 3,64,463 crores spread over the country with 38 million customers.

The bank has a 39% share in the low-cost deposits and a net profit of Rs. 3,091 crores (2008-09).

Its capital adequacy ratio for Tier I and Tier II capital is pegged at 8.98% and 5.05% with Gross and Net NPA at 1.77% and 0.17%, respectively, which is lower than the average for nationalised banks in India.

Its priority sector credit to Adjusted Net Bank Credit (ANBC) is at 41.53% and agricultural credit to ANBC is at 19.72%, which is higher than national goals of 40% and 18%, respectively.

Appendix A2: Structural changes at NB

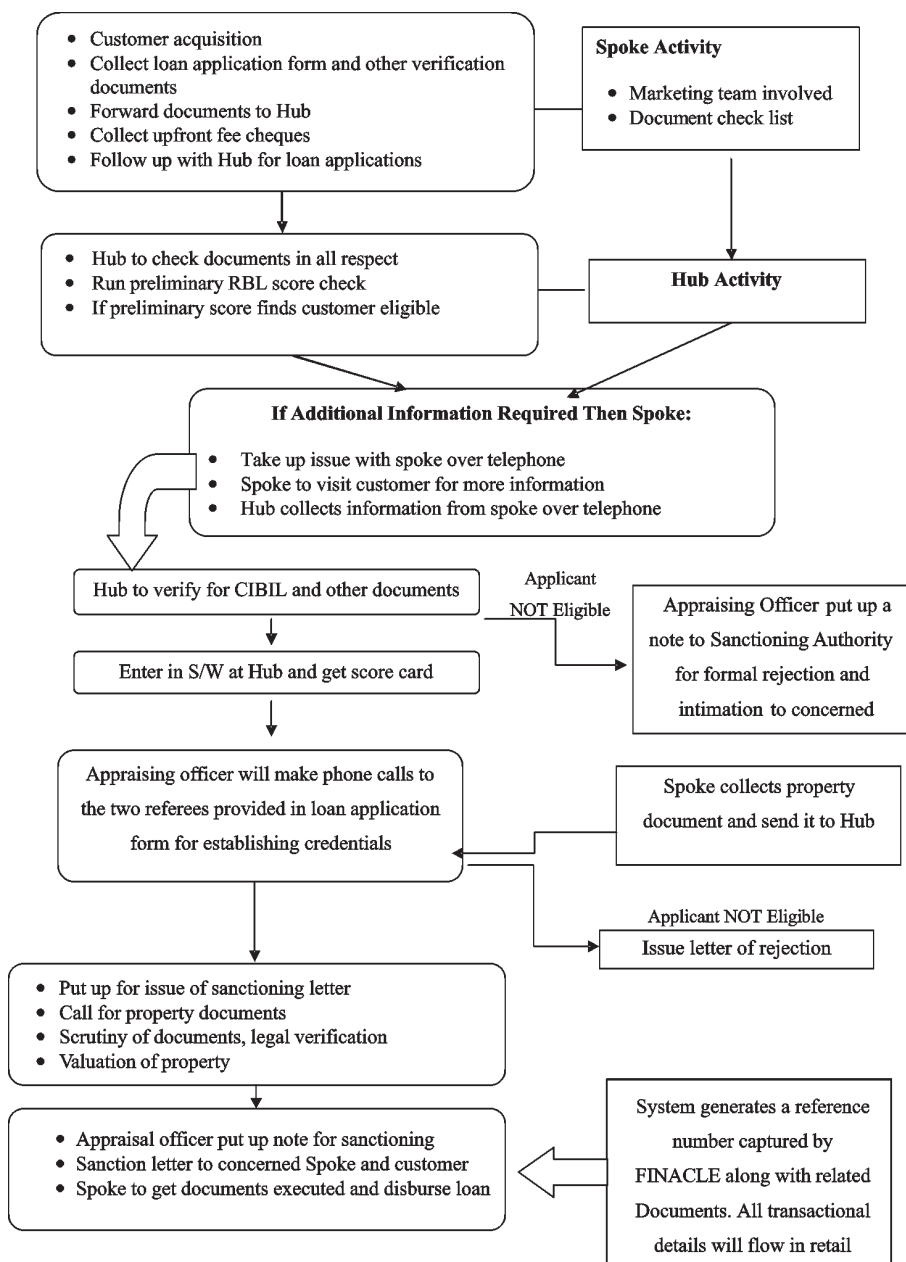
ORIGINAL STRUCTURE OF NB	
TIER-1	HEAD OFFICE
TIER-2	ZONAL OFFICE
TIER-3	REGIONAL OFFICE
TIER-4	BRANCHES
RE-STRUCTURED NB⁵ (Year 2009)	
TIER-1	HEAD OFFICE
TIER-2	CIRCLE OFFICES (58 nos.)
TIER-3	BRANCHES (4,668 nos.)

Appendix A3: Decadal financial ratios

	Mar 09	Mar 08	Mar 07	Mar 06	Mar 05	Mar 04	Mar 03	Mar 02	Mar 01	Mar 00
Net to Gross NPA (%)	9.53	22.71	21.40	6.70	3.19	9.61	30.66	43.72	54.08	61.32
Net Non-Performing Assets to Net Advance (%)	0.17	0.64	0.76	0.29	0.20	0.98	3.86	5.32	6.74	8.52
Capital Adequacy Ratio (%)	12.59	12.96	12.29	11.95	14.78	13.10	12.02	10.70	10.24	10.31
Tier-1 Capital (%)	8.05	8.52	8.93	10.06	8.87	7.01	7.11	6.34	6.84	10.31
Tier-2 Capital (%)	4.54	4.44	3.36	1.89	5.91	6.09	4.91	4.36	3.40	0.00
Interest Income % Average Working Fund	8.70	8.01	7.49	7.28	7.04	8.12	9.27	9.50	9.84	10.12
Non-Interest Income % Average Working Fund	1.31	1.12	1.15	0.94	1.39	1.95	1.55	1.40	1.31	1.43
Operating Profit % Average Working Fund	2.59	2.25	2.41	2.18	2.25	3.26	2.87	2.11	1.59	1.61
Return on Assets (%)	1.39	1.15	1.03	1.09	1.17	1.08	0.98	0.77	0.73	0.75
Business per Employee (Rs. Cr)	6.55	5.05	4.07	3.31	2.77	2.28	1.96	1.68	1.42	1.06
Profit per Employee (Rs. Cr)	0.06	0.04	0.03	0.02	0.02	0.02	0.01	0.01	0.01	0.63

5. Data obtained from published sources.

Appendix A4: Retail lending - Hub and Spoke model work flow



Author's profile

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Shubhabrata Basu is a faculty in the area of Strategic Management at Indian Institute of Management Indore. His areas of research interest are Organisational Slack, Environmental Shifts, Decision-Making Processes In State-Owned Enterprises, Innovative Value Creation Processes In State-Owned Enterprises, Knowledge Evolution and Intellectual Capital In Intrapreneurial and Entrepreneurial Organisations and Types Of Innovation In India Firms.

CASE ANALYSIS 1

Vinaysingh Chawan

National Bank (NB) is undergoing a massive transformation process owing to changes in its competitive landscape. The case describes efforts of NB in implementing a new organisational structure and reengineering the related processes. The resistance within the organisation, whilst adapting to the new structure, has raised doubts about the suitability of the new structure for the bank.

NB started with a focus on agricultural loans and trade financing in undivided Punjab during the British rule and subsequently expanded its network. When economic liberalisation and banking deregulations allowed private banks and players from the non-banking sectors to enter the banking business, NB reacted to the competitive situation by opting to focus on retail lending business and scaling up of operations. In the process, it accumulated NPA as a consequence of the pressure to perform and fulfil allocated targets. To overcome the problem, NB looked at some of its successful competitors and chose to imitate their business aspects partly. This resulted in back office centralisation, CBS implementation, and adoption of a Hub and Spoke setup for lending business.

The traditional loan disbursement process involved a high degree of customer interaction and was labour intensive. The credit worthiness of customers was established at the discretion of the loan officer, who was responsible for all approved loans. It was a subjective people-dependent system, which was error prone due to employee prejudices in credit scoring. Moreover, the processes were not scalable. NB decided to move towards an objective process-oriented system. The existing loan approval processes were reengineered and implemented through a new Hub and Spoke organisational structure. The new processes, because of their objective nature, were able to eliminate employee prejudice from the loan decisions, but led to loss of job satisfaction amongst loan officers. Some drawbacks of the new processes were rigidity and lack of focus on knowledge acquisition processes. Traditionally, loan officers used their experience for credit rating, but the new system had no processes to learn from this experience. This resulted in lesser job satisfaction amongst employees. The problems arising due to inappropriate processes were attributed to the maligned Hub and Spoke structure.

1. Redesigning some Processes

NB needs to monitor and fine-tune the processes to suit the new structure. There is a need for the organisation to acquire and retain the knowledge gained by the front line staff at the Spoke. This will lead to more organisational learning, and front line staff will also get job satisfaction from such activities. Information needs to be shared freely across the organisation, and the decision-making process needs to take in subjective information provided by the employees at the Spoke. Then the Hub can implement objective decision-making processes. The decision-making process needs to give adequate weight to the opinions of employees at the Hub and the Spoke.

2. Risk Management System

NB needs a risk monitoring system, through which it will be able to track its exposure to individual customers, and also in aggregate to various segments across its branches. This system will help in setting control limits and targets for various branches. This information can also be used to develop customised banking products for individual customers and customer segments.

3. Employee Orientation

The need for the new organisational structure and the rationale behind it should be communicated to all staff. Co-operation between the Hub and the Spoke needs to be ensured by sharing decision-making power and responsibility amongst them.

4. Human Resource and Training

If NB wants to evolve as a net-centric bank, employees need to be trained in IT and latest banking technology. Current staff may be trained for the immediate requirements, but in the long run, the bank has to go for new recruitment to bring in required talent.

Author's Profile

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CASE ANALYSIS 2

D. L. Sunder

I. Introduction

The case focuses on the structural changes initiated by the NB, particularly with reference to the introduction of the Hub and Spoke model in retail banking. The entry of the private banks increased competition in the industry and NB was forced to explore new options and markets to maintain its market share and position in the industry. The drive to increase business also resulted in an increase in the NPAs of the bank. The then Chairman Mr. Chatterjee decided to leverage technology as was being done by the private banks and introduced ATMs and 100% computerisation including Internet banking, which would make banking services available 'anywhere anytime' across the country. He also decided to introduce the Hub and Spoke model in the retail business. This was aimed at improving the effectiveness of the loan sanctioning process and reducing NPAs.

The new 'Hub and Spoke' structure moved the loan sanctioning power from the branches to the Hub, leading to unhappiness at the branch level. The branch officers felt that they were in a better position to assess creditworthiness of the applicant compared to the appraising officer at the Hub because they were closer to the client. They also felt that the appraisal at the Hub was done in a mechanistic way using very stringent criteria, and tended to be very conservative. The members at the Hub disagreed with the above-mentioned viewpoint and said that the system was working so well that the NPAs had reduced and customers were in fact using their credit rating by NB to obtain loans from other banks.

The associated issues are as follows:

- Would the new chairman support the initiative of his predecessor?
- The men who were being posted at the Hub were not the best officers, and as such the effectiveness of the decisions taken at the Hub was sub-optimal.
- Although new technology had been introduced, continuous training on the new technology was not provided. This was critical because most of the employees at NB were senior in years and were not conversant with the technology.
- The reward and punishment system left a lot to be desired because there were no incentives for a good record of sanctioning loans.

2. Discussion

It is important to recognise that with liberalisation, competition has come to stay and would only increase. Being a government bank, NB would have to work towards fulfilling the social objectives of the government and operate within the rules. They would not have

the flexibility available to the private and foreign banks. Employees would have to accept and acknowledge that the environment has changed and management has ensured that this message sinks in. Further, with increased targets, it is natural to consider any and every loan application and consequently the increase in NPAs. The Hub and Spoke model is a required intervention, bringing discipline to the loan sanctioning process. However, we cannot ignore the contention of the branches that being closer to the client, their assessment would be better because of their knowledge of their client. If the branches were relegated to the position of sales offices, then co-operation of the branches in collection and servicing of loans would suffer. As one of the employees suggested, the best solution would be for the Hub and the branches to work together.

Issues regarding training, selection of officers, reward and punishment: Effective leveraging of the technology by moving towards a paperless office is critical and needs to be addressed.

3. Recommendations

The loan sanctioning process should be modified to include inputs from the branches. Some of the alternatives are as follows:

- The branches can sanction loans up to a threshold value. The concerned officer at the branch would be responsible for bad debts if any. Beyond the threshold level, the Hub can independently assess the application, and if both the branch and the Hub recommend the loan, it would be sanctioned and both the officers at the branch and the Hub would be responsible. If there is a conflict between the decision of the branch and the Hub, it would be referred to the next level for a decision. In such cases the officer in favour of sanctioning the loan (at the branch or the Hub) would be primarily responsible, with the officer at the sanctioning level (circle) holding secondary responsibility.
- Weightage could be assigned to inputs from the branch and the evaluation done at the Hub. A combined score could be used to sanction the loan. The responsibility would rest with both the branch and the Hub officers.
- The Hub would only check if all the processes have been followed and point out issues to the branch and the primary responsibility for the loan would lie with the branch.

The reward-punishment mechanisms should be modified to include incentives for a good track record of sanctioning and recovering loans both at the branch and at the Hub. Hub positions should make coveted positions to which officers from the branch aspire for and a stint at the Hub could be made a necessary component of the promotion process. The selection to the Hub should be made by the circle/head office based on the performance of the candidates at the branch.

The situation faced by the NB reflects the problems faced by any organisation when changes in environment dictate dramatic changes in the organisation. Clear communication on

the goals and direction taken by the top management is essential. In addition, the top management on every possible occasion should reinforce the communication. It is also necessary that the implementation of the changes be done as humanely as possible. The emphasis should be on rewards for contributing and implementing the changes rather than punishment.

Technology is an enabler. However, to effectively leverage the technology, it may be necessary to let go of the legacy systems. To do this, the confidence in the new technology should be built by extensive training.

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CASE ANALYSIS 3

Prabin Panigrahi

Abstract: In this case analysis, the first section discusses on the context, diagnosis and responses related to the case. In the second section, the analysis of the case is presented. Third section discusses various insights extracted from the case.

I. Context, Diagnosis and Response

I.1 About the NB

NB is a very old and national-level commercial bank of repute. The bank has been spread across the country with a huge customer base (i.e. 38 million). Large and dispersed shareholders control it with professionalism in management. It started its business focusing on trade financing and agricultural loans. With respect to performance, gross and net NPA are lower than the average for nationalised banks in India and its priority sector credit to ANBC and agricultural credit to ANBC are higher than that of national goals (Appendix A1). Its system structure and processes are very old and have evolved over a period of time.

I.2 NB's move in the changing environment and new challenges

Due to economic liberalisation and banking deregulations in India, the competition scenario changed. Banking industry witnessed entry of new players with a wide range of product and services. Banks started competing on scale, scope and experience of services. Some of the government regulations helped non-nationalised private banks in performing better compared with the nationalised banks. Private banks, due to their early adoption of contemporary technology and IT strategy, are in a comfortable position within the new rules of competition.

In order to cope up with the changing environment, NB tried to change its image of a legacy bank with colonial economic priorities to a modern bank with national endeavour. NB changed its focus from rural and semi-urban area to retail (home loan and car loan businesses etc.) segment, a rapidly increasing business area. It has reconfigured and extended its business into areas such as personal, social, business sector and corporate banking taking the benefits of technology.

Due to the nature and complexity of business NB discovered that its net NPA is increasing. Also, the number of defaulters and irregularities is increasing. NB realised that traditional model would be extremely difficult to sustain when demand becomes high, that is, when its retail-banking segment expands and dedicated workforces to designated routines are not available.

I.3 Addressing the new challenge

In order to address the new challenge of competition, NB implemented the following strategies.

- **New IT Strategy:** As part of the strategy, NB computerised all the branches. It implemented centralised back office, core-banking system, anytime anywhere banking,

Internet banking, utility banking and an integrated risk management system. Business processes were made net-centric.

- **New Structure:** During the middle of the decade NB created a structure for its lending retail business by introducing established Hub and Spoke model. Accordingly it reengineered its lending retail loan process radically. As part of this structuring and redesigning, NB reduced its four-tier structure to three-tier.

The impact and implications of changed business process can be analysed from the comparison given in Table I below:

Table I: Comparison between old process and new Hub and Spoke model-based process

Traditional Business Process	New Process based on Retail Hub and Spoke Structure
Limited number of service channels	Multiple channels of service deliveries
Not having a dedicated structure for lending and disbursement of retail loans	Dedicated structure to support expansion in retail banking segment
Non-standardised, decentralised loan processing	Standardised, centralised loan processing
No marketing activities at branch level	Customer are acquired by marketing team employed in individual branch
Loan application processing and decision of loan sanction both were done at branch level	Individual branch (Spoke) collects and verifies applications and then Hub processes it with RBL score checking software. Eligibility test for loan and credit worthiness is done by Hub.
Sanctioning authority in branch is in direct contact with the applicant in the process of decision-making	Appraising officers at the Hub do not have direct contact with loan applicant
Decision on credit worthiness is based on personal judgment and past experiences	Database oriented, process-based, system-oriented, objective-oriented (through input data and scoring software having well defined logic)
Loan sanctioning and disbursement at branch level. The process is non-iterative and discontinuous	Loan sanctioning at Hub; disbursement at branch. The process is iterative and continuous.
Branch office decides and disburses loan	Branch office disburses the loan. The decision on loan sanctions done at Hub level
Sanctioning authority exposed to risk	As system driven, no one is exposed to risk

2. Analysis

2.1 Strategies and structure

IT Strategy: By copying the business model as well as Hub and Spoke model from other competitors, NB implemented its new strategy for survival and growth with IT as a major enabler. NB, a late adopter of IT, just followed the IT adopted by others. Just by adopting technology one organisation cannot get competitive advantage over others. But, by not having appropriate IT in place, it is difficult for the organisation to survive. IT has become a commodity and ubiquitous. On the other hand, it increases the risk - the risk of becoming obsolete, risk of failure and risk of being copied. In order to get a competitive advantage considering IT a pivotal role, the organisation must select the appropriate IT, reengineer its business processes and align its business processes and IT to the organisation's overall strategy. Besides that it must have a proper business model in place that continuously innovates. Huge and established organisations, which are late adopters of IT, face many challenges in leveraging IT.

NB took a right decision by implementing the new IT strategy. Its business model required such type of IT infrastructure and strategy. The IT strategy would enable the operations scalable, faster and automated. It helps in avoiding personal prejudice, biases, gut filling and so on. of decision makers that may lead to inefficiency.

Structure and process change: The redesigning of lending retail loan (retail banking) business process, which was radical, might have taken less time but implementing a radical redesign will take a very long time. After introducing the structure and Hub and Spoke model, the followings are observed:

- The overall performance of NB has increased, which is evident from the following facts:
 - NPA reduced in 2009 over past 2 years
 - Return on assets increased except in 2005
 - Percentage NPA to net advance has been decreased
 - Both interest income and non-interest income have increased
- No allegations of irregularities and malpractices on both loan sanctioning and disbursing managers
- Loan application processing is system driven and objective oriented. As this leads to reduce risk exposure, 50% of the bank officials welcome the change. They are happy after its implementation.
- Due to centralisation of customer information, both branch level and Hub level can access customer information. Sub-processes need not be sequential. The model helps in doing parallel activities.

Implementation of the model resulted in mixed responses. Although it is observed that the performance has improved, it is not clear from the case whether the same is contributed by the Hub and Spoke model. It is a challenge to find out how much the model contributes.

2.2 Major issues identified

The following issues of NB are identified in terms of operations, policies, technologies, procedures, work culture and business target in its transition phase:

HR issues: The following human resource (HR) issues are identified:

- Bank is overloaded with staff but short of right staff.
- Managers are stressed out.
- Appropriate incentives and rewards system are not implemented after reengineering the business process.
- Average age of the employee is 40 to 45 years. These employees may not be IT savvy. In addition to this, the bank has not done any recruitment for quite some time.
- Lack of good training. As the employees are not IT savvy, and the bank has adopted IT-enabled expansion, training employees is highly essential. The bank does not provide good training.
- Senior managers are dissatisfied as their 'subjective decision-making' is not required. They get the job satisfaction out of it. Due to the new model, the job satisfaction is lost.
- Relation and co-operation between people at Hub level and Spoke level seem to be unsatisfactory. This may be due to layer, structure and mindset.
- Branch-level officials feel embarrassed and dissatisfied when the applications forwarded by them are rejected.
- Half of the managers of executive cadre of the bank are not happy on the utility of Hub and Spoke model in spite of good results.
- Majority of the bank employees are from a specific region that understand and have good business intelligence about their people who are mostly NB customers. Senior bank managers have apprehensions regarding loss of valuable customers, loss of informal business intelligence collected at field level, degradation of brand image and relationship, poor quality of staff at Hub level and misuse of credit rating due to this model. Senior bank managers' apprehension about the leadership and continuity of the model are based on past trends.

When a structure is created and process is changed in an old and established organisation like NB, different types of cultural and HR issues arise as expected. These issues need to be addressed over a period of time.

Cultural issues: The following cultural issues are identified.

- Although NB has implemented IT, its use is not proper. Major time (3 months) of a year is spent on preparing hard copy reports for compliance. People prefer hard copies to soft copies. Managers are having functional mindset and are not taking advantage of the technology fully.

- Operating culture is not conducive and aligned to IT strategy, which may be due to the profile of the current employees.
- Top management's legacy association with a particular region is influenced by that regional culture. The bank business was dominated by regional culture. Recently it has been changed because the then Chairman is not from that region.

3. Insights

- The competitive landscape for NB has been changed. In order to compete, NB must increase its efficiency that leads to scalable operations. If processes are standardised, then automation of the same can happen. Automation would bring more efficiency. NB tried to standardise the process by creating an organisation structure in it. The new structure does not consider manager's judgment and personal experiences in decision-making. So senior manager's gut feeling and their specific business intelligence about customers are not given any importance in this structure. This initiative hurts ego of senior employees as expected. On the other hand, the model helps the operations scalable.
- Senior bank managers' apprehensions are not reflected in the financial performance. This may be due to removal of one layer in the structure.
- One of the critical success factors of process re-engineering is establishing appropriate incentive and reward systems. The top management must implement this after reengineering. As the model takes a top-down approach, commitment from top management is also one of the critical success factors of process reengineering.
- Reengineering a business process needs new skill sets. Appropriate training must be provided.
- Reengineering requires enforcement of performance measurement. Performance measurement criteria and procedures need to be enforced at both Hub and Spoke level. Business process needs to be modified to capture product- and bank-specific business intelligence at various sources.
- The bank needs to recruit young employees. This will improve the operating culture and employees would be more IT savvy.
- Due to the problem of hierarchy, the suggestions regarding the sharing of responsibility and experiences both by Hub and by Spoke may not work. It is very difficult to arrive at a consensus.
- Earlier banks were person driven and that does not help in scalability. Hub and Spoke model is around a system-driven responsibility that helps in scalability. As systems and procedures are important in this model, nobody has responsibility. Decisions are based on data and risk management rating software.
- Organisation culture is very important for survival and growth of the company - to adopt changes in the environment/organisation.

- Regarding misuse of credit rating of NB (as stated by some officials) this can be addressed at organisation-industry-government level.
- Branch-level people should not commit anything to the loan applicant.
- IT is considered an enabler and implementer. If it is not aligned to the organisation's overall strategy, implementing IT will not provide any added advantage to the organisation. In this case, NB has changed its process radically in order to increase the bank's customer base significantly and at the same time reduce NPA. In order to implement this radical redesign with the help of IT, NB has made changes in structure, and work culture, policies. In this situation, people resist change for various reasons.
- Sustainability of the model: NB should implement change management. Whenever organisations change the most important business process of the organisation, people resist change for variety of reasons. Proper incentive and reward systems, and communication systems, need to be implemented. Good HR practices specific to NB should be adopted. Various culture-related issues need to be addressed.
- In spite of the fact that managers are having experiences and business intelligence about loan applicants, the NPA has increased. Hence, senior manager's apprehensions are not supported by data. On the other hand, NB is expanding its business, changing its segments and increasing its spread. They should not limit their core strength only to traditional/semi-urban region-specific customers. They need to upgrade their skills and change their mindset. NB's culture needs to be realigned to Hub and Spoke model and should be consistent. This would help NB to reduced NPA dramatically.
- Although there are lots of issues, NB is surviving and doing well. This may be due to Hub and Spoke model. If the issues mentioned above are addressed, and people become IT savvy, NB can do better.

Author's Profile

Prabin Panigrahi

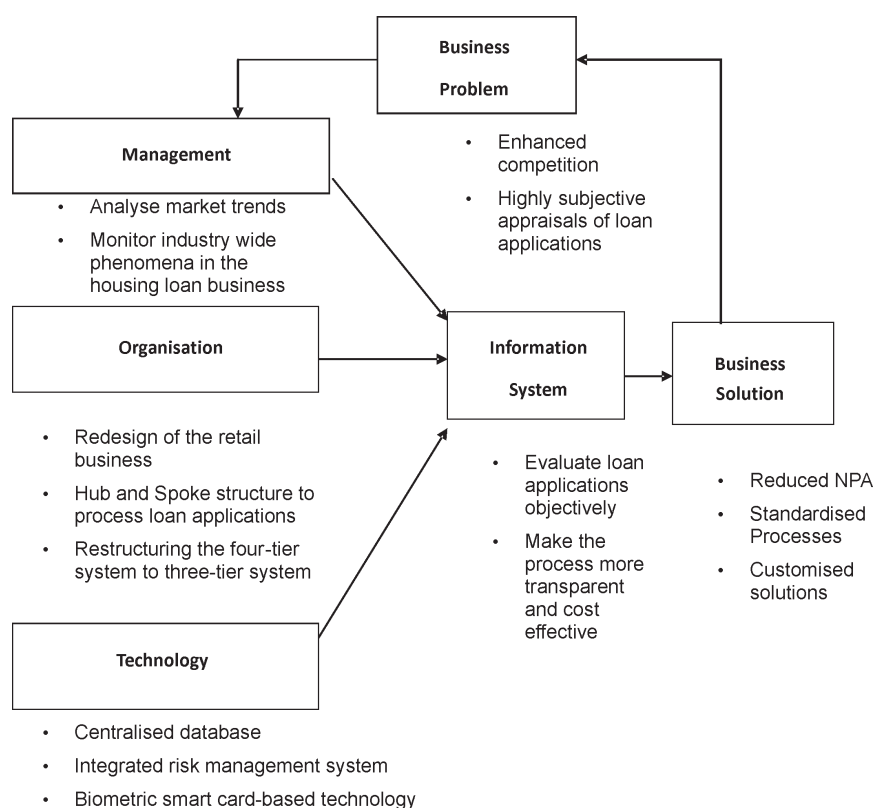
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CASE ANALYSIS 4

Hemalatha Chandrashekhar

NB was faced with enhanced competition from Indian private banks and foreign banks due to the economic liberalisation and banking deregulations. As a reaction to this changed scenario, NB contemplated in a four-pronged strategy including the centralisation of the back office, setting up of a Hub and Spoke structure for retail business, setting up of an integrated risk management system and finally restructuring the four-tier system to three-tier system.

The following diagram highlights the important points raised by this case.



The case points to the fact that NB decided to follow the path of its competitors and leverage technology to implement its strategy and thereby stay in the race. IT and systems may be adopted in an organisation to fulfil a variety of objectives, one of which includes 'survival' in the face of tough competition. Hundred percent branch computerisation, implementing the CBS, building the ATM network and so on are some of the bare minimum requirements for survival.

However, in order to outperform competitors, wise choices with regard to technology investments need to be made at the appropriate time. NB rightly launched a drive for biometric smart card-based technology to facilitate marginal groups such as vegetable vendors, construction workers, rickshaw pullers - a step towards inclusive growth.

Another major secret to the success of IT and system investments is their alignment with the business strategy. In NB, the new system of information and data management and loan application appraisal processes seem to amply support the Hub and Spoke model for retail. The centralised database (at the Hub) facilitates the collation and centralisation of customer information, standardisation of processes for checking the credit worthiness of customers and customising solutions whilst the networked branches (the Spoke) facilitate ease of operation, verifications and communication with the customers.

The reduction in NPA over the past 2 years (2007-2009) may perhaps be attributed to this important business strategy - IT strategy alignment. However, Information systems technology is often the stimulus for a behavioural problem or issue. Unfortunately, there can be no technical solutions that can deal with behavioural issues. Appropriate Change Management initiatives should take care of counter implementation and resistance to change from the employees.

Complete support from the top management, constant communication of the top management with the employees at all levels, appropriate training and appropriate incentive schemes to encourage employees to embrace the new system are all vital to aid the organisation to transit smoothly to the new systems and processes from the legacy of systems and processes.

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PERSPECTIVES

HARNESSING MENTAL ENERGY

Swami Samarpanananda



Importance of Mental Energy

What we would be without the power of our mind? Nothing. A fossil.

When we look around the world, we find that the difference between animal and man, and also between man and man, lies in the difference of their respective mental power. The greats of every field seem to have had access to the infinite source of mental energy. Sages, scientists, artists, poets, politicians and every such path maker became great because

of the simple reason that they could tap the infinite within them. Naturally it is the concern of all to understand the nature and dynamics of mental energy to find the ways and means of conserving and also increasing it.

The need to understand the art and science of mental energy does not end with a simplistic approach because a proper understanding and application of this art can take one to the highest level of evolution, and also beyond it, that is, mukti. The mind is the subtle agent that governs every movement of our physical organs and the body. All our acts, thoughts and words are rooted in our mind alone. Our sense of bondage, limitations, passions, weaknesses and also the power to be free, to create and to be good and all such things are operated only by the mind. So, if we want to overcome our weakness, if we want to become good and noble and if we want to be anything in life, then we will have to reach the very fountainhead of all our energy, and we will have to harness our mental energy.

Emphasising this need, Swami Vivekananda says, '...Now, a good deal of our physical evil we can get rid of, if we have control over the fine parts; a good many worries we can throw off, if we have control over the fine movements; a good many failures can be averted, if we have control over these fine powers. ... The utility of this science is to bring out the perfect man, and not let him wait and wait for ages, just a plaything in the hands of the physical world, like a log of drift-wood carried from wave to wave and tossing about in the ocean.'

Problem of Non-rejuvenation of Mental Energy

Every being is usually at his energetic and creative best till a certain age (normally 25), after which begins the journey to dissipation. Add to this the blows and betrayals by the

world and you will find a grown-up person sapped of vitality and vigour resulting in gloom, pessimism, despair and depression. The creativity of such persons gets lost, which is as bad as becoming inert.

However, by proper training and care even the worst cases of disintegration can once again begin their journey towards perfection. In fact it is a wonder that when the doors to all that is good, noble, joyful and stimulating are perpetually open, why does one refuse to walk through them and, instead, sits idle in his personalised black hole, accompanied by his dark thoughts alone! It beats rationality. We refuse to accept that all our negative emotions, feelings, words and acts are rooted in our failure to harness our own mental energy. We also forget that we can get reestablished in all glory by merely shrugging off our despair.

Fortunately, it is never late to begin. And, even a little effort that goes into the noble task of building the mind power never gets scattered like the autumnal cloud.

The Source of Mental Energy: According to Science and Spirituality

In passing it may be mentioned that the very approach of science and spirituality towards the mind is exactly the opposite, which causes no less amount of confusion and conflict. Every religion believes that the universe has come out of intelligence, and out of that intelligence came the gross matter, which we call world. On the other hand, all scientists and most Western philosophers believe that intelligence is the last to come in the chain of evolution. According to them, unintelligent things slowly evolve into animals, and then into men. They thus claim that instead of everything coming out of the cosmic mind (of which we all are a part), mind itself is the last to be evolved.

So, according to religion, all powers (including yogic, extraordinary, the sixth sense etc.) are already in the mind of man because this mind is a part of the universal mind. For the same reason, each mind is connected with every other mind, and hence each mind is in communication with the whole world all the time.

The science of today is the cataloguing of observability, which itself has a severe limit. Brownian motion puts a limit to observability, and Heisenberg's uncertainty principle puts a limit to predictability. This sticking to observability, duplicability and predictability puts such a severe constraint on science that it refuses to admit the obvious and misses the trees for the forest. It refuses to accept that a man is divine by nature, has infinite potential and has all the wisdom and power within him, and any of his achievement is due to the uncovering of his limitations that he had set himself.

The Sixth Sense

It won't be out of place here to mention a word or two about the sixth sense, which is also known as intuition.

Science believes that the mind grasps data through five senses alone. And yet there are

innumerable cases of a person's coming across some important data without the intervening medium of his five senses. For example, Jim Corbett describes in *Man eater of Chowgarh*, 'This sense that warns us of impending danger, is a very real one and that I do not know, and therefore cannot explain, what brings it into operation. On this occasion I had neither heard nor seen the tigress, nor had I received any indication from bird or beast of her presence and yet I knew, without any shadow of doubt, that she was lying up for me among the rocks... this knowledge was confirmed a few moments later.'

What has been described here is not something unique. We all have our own personal data of such encounters, but we refuse to believe their authenticity simply because many times our intuitions have gone wrong. We do not realise that such psychic phenomena require a lot of mental purity, solitude and discipline. Without these, our mind stays immersed in the surrounding noise of the mental waves and fails to listen to what is being conveyed softly. Like the effort of waking up Kumbhakarna from his sleep with the help of great noise, we also require the screams of our senses to become aware of the happenings around us. We are simply not capable of hearing the soft whispers of the mind. That is the reason why many of our intuitions get covered up and convey the wrong things.

Highlighting the importance of solitude to develop mental powers, Swami Vivekananda says, 'It seems to me that when a country becomes very thickly populated, psychical power deteriorates. Given a vast country thinly inhabited, there will, perhaps, be more of psychical power there.'

When a person learns to become quiet, and stops creating his own mental din through memories and wild thinking, his power of perception, judgment and action increases a thousand fold. The goal of every person should be to get connected with the universe directly, without the aid of the telescope and stethoscope of his senses. That is when the real power of the mind shines in all brilliance.

The Potential of the Human Mind is Infinite

Given the right training, there is no end to the power that a man can obtain. One of the most authentic and enlightening pieces on this subject comes from Swami Vivekananda, who narrated his experience of mind power as follows:

I once heard of a man who, if any one went to him with questions in his mind, would answer them immediately; and I was also informed that he foretold events. I was curious and went to see him with a few friends. We each had something in our minds to ask, and, to avoid mistakes, we wrote down our questions and put them in our pockets. As soon as the man saw one of us, he repeated our questions and gave the answers to them. Then he wrote something on paper, which he folded up, asked me to sign on the back, and said, 'Don't look at it; put it in your pocket and keep it there till I ask for it again.' And so on to each one of us. He next told us about some events that would happen to us in the future. Then he said, 'Now, think of a word or a sentence, from any language you like.' I thought of a long sentence from Sanskrit, a language of which he was entirely ignorant. 'Now, take out the paper from your pocket,' he said. The Sanskrit sentence was written there! He had written it an hour before with the remark, 'In confirmation of what

I have written, this man will think of this sentence.' It was correct. Another of us who had been given a similar paper, which he had signed and placed in his pocket, was also asked to think of a sentence. He thought of a sentence in Arabic, which it was still less possible for the man to know; it was some passage from the Koran. And my friend found this written down on the paper.

Another of us was a physician. He thought of a sentence from a German medical book. It was written on his paper.

Several days later I went to this man again, thinking possibly I had been deluded somehow before. I took other friends, and on this occasion also he came out wonderfully triumphant.

Another time I was in the city of Hyderabad in India, and I was told of a Brahmin there who could produce numbers of things from where, nobody knew. ... He had only a strip of cloth about his loins, we took off everything else from him. I had a blanket, which I gave him to wrap round himself, because it was cold, and made him sit in a corner. Twenty-five pairs of eyes were looking at him. And he said, 'Now, look, write down anything you want.' We all wrote down names of fruits that never grew in that country, bunches of grapes, oranges, and so on. And we gave him those bits of paper. And there came from under his blanket, bushels of grapes, oranges, and so forth, so much that if all that fruit was weighed, it would have been twice as heavy as the man. He asked us to eat the fruit. Some of us objected, thinking it was hypnotism; but the man began eating himself - so we all ate. It was all right.

He ended by producing a mass of roses. Each flower was perfect, with dew drops on the petals, not one crushed, not one injured. And masses of them! When I asked the man for an explanation, he said, 'It is all sleight of hand.'

Whatever it was, it seemed to be impossible that it could be sleight of hand merely. From whence could he have got such large quantities of things?

If these words had not come from the authority of a person like Swami Vivekananda, we would have laughed away the whole description as imaginary. But there is no way that we can ridicule Swamiji's words, and hence we cannot laugh away the concept of special powers.

We are thus forced to accept that there is no end to what a person can do, provided he knows how to do it.

The Practice

When we talk of someone's personality, we actually talk of his mental power, which comes not through his words, nor through his intellect, but by the sheer pattern of his mental energy. These two, the personality and the mental energy of a person, are one and the same thing. When we bow down before a saint, or before a man of integrity, we actually bow down before his mental power, whose external form is that personality.

Whatever the mental power of a person, ultimately it has to work through the brain. Formerly it was believed that the brain is hard wired to do certain things, and that it is not possible to change the wiring after an age. But, all that has changed with the discovery of neuroplasticity, which means that thinking, learning and engaging in activity can physically alter the brain. It is now confirmed that these can affect DNA and turn our genes on or off. No one yet knows how this occurs, but it is an established fact that when a person thinks thoughts repeatedly, he turns on genes to make proteins that change the structure of the neurons and increase the number of connections between brain cells. Similarly, many instances have been reported by doctors and nurses when someone condemned leading a crippled life changed his very brain structure, and consequently the concerned limb, by a strong will power and vigorous exercises.

We thus realise that nothing is impossible for a person to achieve, particularly if he practises certain things. Here we mention some of the more important and common practices, although there is no end to this list.

- Trifles bring perfection: To be successful, one has to learn to pay attention to the most trivial of the task in hand, which normally get neglected. This includes one's life itself. In actual practice, it is seen that we apply all our attention to the bigger things and completely neglect the minor details of our life. How we dress, how we walk, how we eat and all such things add up to build our personality. Also, slipshod work creates a great amount of mental irritation, of which we are not even aware most of the time.
- Importance of balancing act through negative thinking: In recent times too many books on positive thinking have made us forget the importance of negative thinking in maintaining the balance of life. A large many disasters come in one's life simply because the warnings associated with negative thinking were ignored, particularly by the overenthusiasts.
- Regularity, discipline, automaton: A lot of mental energy is saved by delegating the non-essentials to the subordinates. Similarly, once a person gets down to performing certain daily tasks as a routine and in a disciplined manner, he will be surprised to see how much time and energy he is saving. Things that can be done through automaton must not be performed through the process of selection and choice.
- Plural is good, singular is better: Multi-tasking is an excellent way to show off one's capabilities, particularly in young age, but it is a hopeless blunder when it comes to the control of mind. Gita says *bahusakha hi...*, a person who applies his mind to too many things, is not a yogi.
- Symphony, cacophony: The thought, words and actions of a person must produce a harmony, and not a cacophony, as it normally does. Then alone a semblance of optimisation of energy can come in his life.
- Sharpen your sickle through rest: There is a true story about a landlord, who was new to farming. On his first day of inspection, he forced his labourers to work throughout the stipulated 8 hours without allowing them the time to sharpen their

sickles whilst harvesting. No wonder that the landlord was surprised to find that although time had indeed been saved, productivity had badly suffered.

- Law of delayed action: How terribly one tends to lose all that he has earned, simply by an imbalance of his mood. Mood swings are something natural, and even essential. But, a little delay in expressing one's emotions can do wonders in interpersonal relationship and in storing up the mental energy.
- Importance of grit: Nothing can be achieved by nibbling at things. To be successful, one has to learn to stick to a task till it is finished. Sri Ramakrishna tells the story of a well digger who dug many wells, but each one only a few feet deep and consequently never got any water.
- Four types of energy: Every person has physical, emotional, moral and spiritual energy working within him. Of these the physical energy is the crudest and the spiritual energy is the subtlest. When a person is weak in any of these energies, he should focus on the energy higher in subtlety. This is the best way to make oneself strong.

For example, if a person is devastated emotionally due to a sudden loss, he can overcome his weakness by reminding himself that whatever might have happened with him, he has been morally correct all along, so he need not despair. He will thus find himself raised to a higher level of strength soon. Similarly, if someone has been making too many moral compromises resulting in severe gloom and depression, then he should pray sincerely to God for forgiveness or he should remind himself that whatever he might have done, he has not sinned against God. He will then soon find himself uplifted. Prayer to God is one of the best ways to build up mental energy.

- The 10 great virtues: The yogis are credited with the best kind of mental energy with the help of which they have succeeded in achieving the most surprising feats. According to them it is essential that a person follow the 10 virtues to master the internal and the external nature. These are non-violence, truthfulness, non-stealing, continence, non-acceptance of gifts, internal and external purification, contentment, mortification, study and worship of God, which should be cultivated by everyone, irrespective of caste, culture, religion and society.

At times we mistakenly feel that we are established in one of these 10 virtues, simply because we do not steal or do not go on a killing spree. But that is not really correct because if a person is truly established in a virtue, he always gets certain supernatural mental power, as described in the Yoga philosophy. For example, if a person is established in non-stealing, then he can get all the wealth of the world by a mere wish. Similarly, all violence ceases in presence of a person who is established in non-violence.

The Last Word

In essence, every mind is supremely powerful; in practice, a common mind is as bad as the behaviour of an unruly child; and in fact, every powerful mind is disciplined and clean. It is only through a rigorous cleansing and disciplining of the mind that one becomes capable

of attaining the superhuman state. The goal for everyone is to stop the birth of every unnecessary mental activity.

All that we discussed in this article are mere words till they are put to practice. All of us know what is good for us, but we fail to practise them out of sheer laziness. It must be remembered that only through a constant practice of these virtues over a long stretch of time, we can aspire to succeed.

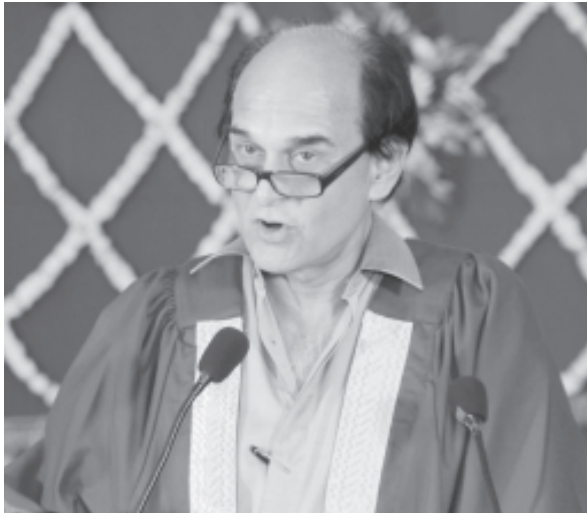
Author's Profile

Swami Samarpanananda

Swami Samarpanananda is a monk at the Ramakrishna Mission. He is presently attached to its university. He is an author - *Tiya: A parrot's Journey Home*. He is also a Hindi poet.

INSIGHTS

Do what you want to be remembered for!



Shri Harsh Mariwala, Chairman and Managing Director, Marico Limited, was the Chief Guest at the Eleventh Annual Convocation of the Indian Institute of Management, Indore, held on March 29, 2010.

Shri Mariwala delivered an inspirational address where he spoke on how he built Marico Limited and transformed it from being a traditional commodity-based business into a Rs.30 billion consumer products and services company with a leadership position in the beauty and wellness space.

The address offered the graduating participants a succinct preview of the multitude of challenges they were likely to face in the corporate world and also gave them insights on how they could overcome them.

His recipe, it turns out, is what they do not teach at business school as a course. But the idea is to try to inculcate in the participants through academic rigour inside classrooms and a panoply of activities outside the classrooms!

The essence contained in Mr. Mariwala's speech is distilled below.

- Cultivate an enquiring mind and make learning a lifelong habit. Learning can be acquired by:
 - Reading books
 - Short-term/Long-term courses
 - Interaction with thought leaders
 - Having the humility to learn from the lowest member of your company or elsewhere
- Look at challenges as opportunities. Apply yourself to come up with innovative solutions to overcome them.
- Be innovative. Be open to ideas. And learn to do things differently. Look at a situation and ask 'Why Not?' It will help you change the rules of the game as well as to bestow your company and brand with a competitive advantage.

- Be persistent. Be resilient. Fall down seven times to get up 8! Never abandon your dreams. But dream to be the best in the world and back it up with detailed planning and with quality execution on the ground.
- Learn to take decisions as well as responsibility, which comes with them.
- Be focused. It brings depth to your work.
- Attract talent, and then give them freedom to work within a predefined parameter. Only talent can grow a business or build the brands.
- Never allow yourself to be bullied in business. But thrashing the bully means evaluating every aspect of business. Invest resources, strengthen your strategic assets and be prepared to sacrifice, even profit, in the short term.
- Do not be driven by research only to cover yourself from all angles. Precious time will be lost.
- Acquire the skill to ask the right question and it will lead you to the right answer.
- Involve every member of your company in key affairs of the company. They may not contribute but the very fact that their opinion was sought will make them own the decision. This will build ownership amongst the employees for the decision. It will ensure the least amount of delay and friction during implementation.
- Values are very easy to write down, but very difficult to follow and practice. Only when values are lived every day do they become the culture of the organisation. Live the values!
- We are all interdependent and hence the job of an organisation is not restricted to chase profit and keep the shareholders happy. The job is to keep all the stakeholders, which include members (employee), suppliers, advertising agencies as well as shareholders and society, happy and delighted.
- Work to answer the question - 'What do I want to be remembered for?' Therefore, do not blindly chase wealth or promotions in your career, but relentlessly pursue what you want to be remembered for!

Please visit <http://www.iimidr.ac.in> for the speech in full.

Uncommon Company, Uncommon Leader

Marico's Chairman and MD Harsh Mariwala's (HM) life has been an uncommon journey on an uncommon path. From professionalising the family-owned business to creating brands

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out of commodities businesses, he has built up Marico with his uncommon sense. Be it switching over from tin packaging to plastic packaging or changing the lice treatment product from shampoo to oil, Harsh and his team have walked the untrodden path to take Marico to great heights. Rajesh Srivastava (RS) meets the man who has made out-of-the-box thinking a corporate philosophy to emerge a winner.

RS: How did Marico's transformation happen from a family-run organisation to an enviable professionally run organisation?

HM: When I started working in my family-managed business, there were no professionals. The family business was mainly into unbranded edible oil, chemical, spice and extract business. Being a commodity business, it was dependent on speculative elements like raw material prices. I realised that if our business could be 'branded', then it would be more stable and provide us with sustainable profitable growth. My visits to markets in various parts of Maharashtra made me realise that if we could extend the distribution significantly then we could grow our business. This was true for Saffola too, which was sold in certain parts of Mumbai and Delhi.

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RS: Any other thoughts that came to you during this initial period?

HM: During those initial years between 1974 and 1984, I realised that people and innovation play an important role in business. Focusing on these two strategic resources, I was able to convert an unbranded commodity business to a branded business, which is more profitable. Hence, the mantra from then on has been to invest in people and try to do things differently.

RS: What other steps did you take to transform your business?

HM: In the 1980s, I realised that to carve a dominant position in consumer products space, a separate organisation was needed. The perception of a family-managed business puts off professionals. I was firm on building an fast-moving consumer goods (FMCG) culture, which nourished people and innovation and helped us compete with bigger multinationals. Remember, it's people who create brands.

RS: What other steps were involved in undertaking this transformation?

HM: I would break the journey into different parts. The first part led to starting Marico. It gave me the opportunity to create the right image and right culture and recruit the right people. The second part involved converting coconut oil to packaged coconut oil, Parachute and refined sunflower oil to Saffola. Beyond that, we launched value-added oils like Sweekar, Hair & Care. The next part saw us going public in 1996.

RS: Any problems you encountered during this phase?

HM: Hindustan Lever entered coconut oil business as they had acquired Nihar. They were very aggressive in the market place, and the stock market lost faith in us thinking we wouldn't be able to survive. This was reflected in our price to earnings (P/E) multiple dropping dramatically. When we went public, our P/E multiple was 13, which went down to 7 in less than 3 years.

RS: So what did you do?

HM: We gave a clear message to the capital markets that we may suffer temporary setbacks but, in the long term, we were into branded consumer products and not commodity business.

RS: What gave you the confidence to take on Hindustan Lever?

HM: We had faith in our capability. Also, products based on coconut oil were everything for us, whereas for Hindustan Lever it was a small part of their operations. Also, we knew the business and had market leadership.

RS: And what drove you personally during this 'siege'?

HM: For me, business is more than money! I could have sold the business and made a lot of money, but money doesn't drive me beyond a point. Business is more of adding and creating value and having the satisfaction of doing it and giving something back to the society.

RS: What lessons did you learn from that experience?

HM: This experience taught us that we could take on bigger giants if we galvanise ourselves. If you have the strength within you, you are not overawed by MNCs and other giants. You have to be perseverant, despite short-term reversals.

RS: What steps did you take to convert coconut oil into Parachute brand so that customers happily pay a premium price?

HM: First, innovation in packaging - sachets, pouches, bottles and large packs. Second, multiple price points and mass distribution. And, last, overall brand creation with a combination of advertising and merchandising. Parachute has become an iconic brand.

RS: Marico today is an admired FMCG company with footprints in more than 26 countries. How did this transformation happen?

HM: One of the key drivers was the fundamental need to grow, and if we had to grow we had to create newer opportunities. In the early 1990s, we noticed some of our coconut oil products were being smuggled to Middle East. It coincided with the time when reforms were happening in India and we advocated to the government to free

exports. That gave us a good opportunity to grow in the Middle East market. Then our survey in Bangladesh showed that it was a very big coconut oil market. We replicated there what we did in India and increased our market share from 0 to 73% in Bangladesh. We manufacture there and have a local field force. Today, we are the largest Indian company in Bangladesh in terms of turnover.

RS: Did the Bangladesh experience help?

HM: That experience has really helped in increasing the growth engines in the organisation and leveraging opportunities of our brands outside India. It provided other learning experiences too! For example, catering to modern trade in the Middle East helped us cater to evolving modern trade in India. It also provides employees good opportunities for career growth. So, we benefited in multitude of ways - formation of new growth centres, increasing profits, learning from new markets and opportunities for people and leveraging intellectual property in international markets.

RS: What was your strategy for the international markets?

HM: In international markets, the first phase was organic growth. But organic growth is a long-drawn process. It took us almost 10 years to establish our business in the Middle East and Bangladesh markets. Now we are a little impatient in terms of growth and started surveying markets in Asia and Africa. We identified brands for acquisition through proactive targeting and have presence spanning across 26 countries in Africa and Middle East.

RS: Marico is now moving into service - Kaya. What is the difference between managing a brand and managing a service business?

HM: It's very different. We may be the only FMCG company which has successfully made this transition globally. Nurturing a service brand requires different focus. If you put an FMCG person in charge of it, he will handle it with an FMCG mindset, which is not the way to handle a service brand. Hence, from day one, we had to nurture it as different business.

RS: So what is the difference in nurturing an FMCG and service business?

HM: In service, we are dealing with individual customers and individual feedback. There is active interaction and delivery of experience with one customer at a time. In FMCG business, we manufacture and distribute our brands to retailers and create demand through advertising. We don't interact with the consumers. We had to change our way of advertising, as our service brand didn't have the large budgets that FMCG brands had. So, more of PR and events were used to create awareness rather than using traditional big budget mass media vehicles like TV.

RS: Did people from Marico get an opportunity in this new growth engine?

HM: We put Marico people having flexible mindset required in a service industry. We located them at different locations and gave them the required freedom, and they reported to me directly.

RS: What were the learnings from your new business?

HM: When you start any new international or domestic business, you have to remove the 'Escape' buttons. It is the first step to success. When we started the international business, we hired a CEO, although the business was not large. If we had made international business a part of the FMCG business in India, it would have got step-motherly treatment because its size was very small. But when a guy is fully responsible for the international business, he will constantly look out for opportunities to grow that business.

RS: On environmental issue, how biodegradable is the Parachute pack?

HM: I think that's a valid point. Plastics add a lot to environmental degradation. We have reduced weight of the bottle to the minimum. This proenvironment initiative and investment has paid us back financially because we have reduced lot of weight. In India, most of the plastic bottles get recycled. Biodegradable plastic has not come to India, but we are not adding to the wastage.

RS: Is Marico's manufacturing environmentally friendly?

HM: Yes, we started this journey 2 years back. We are doing audit and water conservation and cutting down wastages of power.

RS: Private labels are the biggest threat for an FMCG. How are you tackling this threat?

HM: At this stage, presence of private labels in our category is low. Our brands are very strong. The best strategy to fight private labels is to have a strong brand and keep innovating continuously. We follow this strategy, so we are insulated from threat of private labels to some extent.

RS: 'Uncommon sense' is the driving force in Marico. What is this 'uncommon sense' and how has it resulted in value creation for stakeholders?

HM: Uncommon sense is a different way of looking at things, adopting a different approach and getting the right insight. Take personal expenditure incurred by employees or leave taken by them. At Marico, we have self-authorisation, so the employee feels the organisation trusts him. We spend a lot of time in culture building, openness and trust. Take another example. When we acquired Mediker from P&G, it was available only as a shampoo. We realised that penetration of oil is more than penetration of shampoo. So we reasoned that if we actually changed Medicare from shampoo to oil, we should be able to increase our sales! Within a year of acquisition, we developed

anti-lice oil and the sales doubled. The third example is innovation in packaging. We came up with one rupee mini-bottle, which is far more attractive and convenient to use. Result - our market share increased from 17 to 51%.

RS: Can you share some more insights into 'uncommon sense'?

HM: The journey into plastic packaging was an uncommon thing. At a time when the whole market for coconut oil was in tins, we offered it in plastics. Before us someone had offered coconut oil in plastics, but they had executed it badly. So when we launched plastic bottles, we faced huge resistance from retailers. We had to show them that our oil wasn't oozing out and emphasise that plastic containers were better looking. We had better costs and margins, so we could spend more on advertising. It also made sense for the consumers too. I think the Parachute brand evolved and reached the heights it has reached today because of that single decision to enter into plastics.

RS: What is your spend on R&D?

HM: Our R&D spend is less than 2% of the group turnover. We believe in a judicious use of in-house R&D and 'Connect and Develop' model. We have scientists working on product and process development and also people with good network, so when someone is doing good work in technology, we can use it.

RS: Marico is proud of its culture. Can you define it? How do you sustain it on a daily basis?

HM: Marico culture is very open, informal and empowering. It is based on trust and meritocracy. The organisation's leadership continuously reinforces it. For example, to emphasise openness, we designed the office interior so that everyone can see what's happening inside others' workplace. We have an Open House session once a year where employees can ask any question to the management. This again signifies openness. We use first names and prefer to keep the dress code informal. So, openness gets reinforced from multiple angles.

RS: Marico has been voted as the No. 1 employer of choice. What steps did you take to earn this title?

HM: I feel that all the steps taken for building the culture would have played a role in creating the right image of us as an employer. We have focused on issues relating to ethics, governance and environment. We have empowered employees to take decisions and provided them growth opportunities.

RS: What are the uncommon things done by Marico to share prosperity with its employees?

HM: At the manager level, we have an incentive scheme based on goal achievement. Each individual has a 'Goal Sheet' with three to four goals set at the beginning of the year. At the year-end, there is scoring of goals and depending on how the scores stake up, a variable pay, which can be up to 33% of the salary, is disbursed. It's a variable-pay scheme linked to the performance of the organisation and individuals.

RS: Parachute is associated with coconut hair oil and you have stretched it to creams. Saffola has been stretched to food. Are you stretching your brands too much?

HM: I don't think so. We are not associating Parachute with coconut oil but with coconut, which we can leverage in whichever way possible. The fact that so many of them have done well is proof that it is working well. Also, beyond a point, it is difficult to create new big brands because it requires big money, whereas if the extensions stay within a certain boundary, then it is good for the mother brand too.

RS: Are you stretching Brand Kaya from skin care into weight loss?

HM: Kaya is a beauty brand and weight loss and good figure is also good for beauty. Also, Kaya Life is in prototype stage, so the jury is still out on this one! We'll have to wait and watch the impact of Kaya Skin on Kaya Life.

RS: Marico has experienced success, but you must have also experienced failures too.

HM: I think we underestimated the brand equity of the competitors for some of the new products we launched. For example, we entered the baby care segment, but we underestimated the equity of Johnson & Johnson. Moreover, mothers are in a transient mode and, at that time, it's hard to impress mother's mind that the new product is good too.

RS: Is Marico co-creating products with its customers?

HM: We have an active and interactive R&D team. They are frequently interacting with the customers. Product development happens based on the interaction with the customers and we do a lot of product testing involving our customers.

RS: How does Marico ensure that it has a steady stream of innovative products?

HM: Basically, by identifying consumers unsatisfied need. We have a programme of consumer insighting focused on getting deep into the consumer's mind. The objective is to answer questions regarding consumers' needs and expectations. The insighting is converted into an action plan for developing new products.

RS: In India, distribution channel is a key to success. How did you expand and nurture it?

HM: In 1997 to 1998, we did a workshop, which helped us identify our key sources of competitive advantage. One was distribution, second was branding and the third was innovation. We have been continuously investing in distribution, and I can proudly say that in IT and sales, we must be the best company in India. But it's not just about technology; it's about change management. We got 6 to 7 of our IT-savvy Sales Representatives to train our distributors and their in-house staff and make them IT savvy as well.

RS: What did you do for brand building?

HM: We created processes and invested in best practices for brand building. We recruited best people and continuously invested in their training. We also engaged good quality associates like advertising agencies.

RS: How has modern trade affected you and how are you protecting your brands and business?

HM: As of today, we are not impacted at all. In fact, it has been positive for most FMCG companies partly because modern trade has been fragmented amongst different players. Modern trade creates an experience for the consumer and provides great opportunity to create newer categories with the consumers for certain new products.

RS: Let's move to three of your products: Sil, Sundri and Top Ramen noodles. Marico's relation with all the three brands has been terminated. Why did this happen?

HM: We had a sales and distribution alliance for Top Ramen as we needed a critical mass in our distribution system. Sil came to us due to realignment of shareholding in the family. We tried reviving the brand, but couldn't identify anything unique in it. Sundari represented a desire to make a presence in developed countries, but we underestimated the challenge of being in B2B business.

RS: The heart of any business is execution. How does Marico ensure quality execution of its strategies?

HM: You are right; execution is the key. It is easier to think and plan but it's important to execute it well. It is attention to detail and ensuring that work is done error-free. So, it's basically the quality of talent, detailed planning and robust execution. It's necessary to establish processes to ensure certainty in execution. We have a review mechanism and IT also helps in good execution.

RS: All businesses have risk. How have you derisked your business?

HM: Through newer products and businesses. Before we launch a product, we do prototyping. Currently, Kaya Life is a prototype in Mumbai only. During prototyping, we go through a learning curve. So, we derisk by prototyping. Risk management is critical in today's environment. We identify the key risk and go overboard in tackling it.

RS: Customers are changing. The way mothers have been using Parachute may not be the way daughters would be using it. So what are you doing about it?

HM: We have launched Parachute kids' range. Kids may not want to use coconut oil but may not mind using a shampoo with fruity flavour. So, we have Parachute Stars. This is our way of overcoming the resistance of youngsters towards using traditional products. Then, we have a hair cream and night cream too.

RS: PwC was involved in Satyam audit and they are also your auditors. When you got the Satyam news, what was your reaction and what have you done?

HM: We met PwC and found out what went wrong. We exposed them to our Audit Committee and asked for a road map for improving their capability.

RS: How independent is your Board of Directors?

HM: We have a nine-member Board of Directors and, except for two, all others are totally independent. Most of the discussion is centred on strategic issues. I, along with my team, attend the Board meeting. My team also interacts directly with the Board members. I'd say the Board is independent and provides strategic inputs.

RS: Have you ever disagreed with the Board members?

HM: Yes, in the case of Sundari, I didn't say no to them; I just asked them to give me some more time to take the call.

RS: How strong is corporate governance in Marico?

HM: I'd say it's very strong. I take pride in saying it because it's usually not the case with a promoter-driven or a family-managed company. We have ensured there are no interrelated party transactions and removed each and every area of conflict.

RS: Marico's P/E is about 28. How did you achieve it?

HM: We improved the overall basket of products and moved from low-end to high-end products. We also declared corporate dividend. We have an unblemished record of almost 37 quarters of top-line growth, which assures our stakeholders. We also had a very high top-line and bottom-line growth. I think the whole perception about Marico has changed over a period of 4 to 5 years.

RS: Your intangible assets are about Rs. 4,000 crore. Which elements make up your intangible assets?

HM: One of the biggest elements is brand. Brand nurturing is delegated to the experts. Next is people and culture. I spend a lot of time on culture building and people issues. Corporate governance also plays an important role.

RS: For FY08, your RoNW is 51% and RoCE is 48%. How did you achieve these numbers?

HM: If you have succeeded and gained market leadership and created brand equity, then you can actually get returns which are good.

RS: What do you look for in a brand when acquiring it?

HM: I look for acceleration in growth. In case of Nihar, it was for consolidation. In case

of Mediker, it was a niche area with leadership potential in the market. In general, acquisition is geared towards value creation for the shareholders.

RS: What is the essence of 'Harsh' leadership?

HM: The emphasis has to be on meritocracy. Other key areas are openness, empowerment and development through learning and experience.

RS: Who are your role models and how have they influenced you?

HM: To be honest, I don't have one role model. I am influenced by reading or interacting with different types of individuals. There are many individuals who have left a positive influence on me. Amongst management thinkers, I respect Prof. Ram Charan.

Author's Profile

Rajesh Srivastava

Rajesh Srivastava has rich experience of value creation spread over 23 years in industries spanning alcoholic beverages, food and personal-care products. During the course of his career he has conceptualised, launched and nurtured over 50 brands which touch and enrich the lives of consumers everyday, and has also built equity in timeless and enduring brands which include Bagpiper, McDowell Signature, Royal Challenge, Blue Riband, Captain Cook and Lomani.

BOOK REVIEW**Changing Tracks: Reinventing the Spirit of Indian Railways****Sushanta Mishra**

Nilakant, V. and Ramnarayan, S. (2009). *Changing tracks: Reinventing the spirit of Indian Railways*. Collins Business: An imprint of HarperCollins India. Price: Rs. 399; Pages. 222.

The book is a great example of restructuring in a government-owned organisation, which is amongst the largest organisations in terms of size (second largest Railway network in the world under a single management), and is about 150 years old. The book reveals that with political support, strong and willing leadership, organisations can make the turnaround possible. Through the exploration of various innovative models, examples and stories, the book provides a vivid description of how Indian Railways was able to make a shift from a cash surplus before dividend of Rs. 1,071 crore in 2000 to an estimated Rs. 25,000 crore (may be around Rs. 13,000 crore after accounting for all the expenditures, receipts and depreciation) in 2008. Whilst describing the turnaround process of Indian Railways, the authors explain how the change in the Indian Railway is different from the change models practiced in Western context. The book comprises of eight chapters and depicts the turnaround process in the Indian Railways that took place between 2004 and 2008. The first chapter provides a snapshot of change and lays the ground by arguing that the turnaround is real. The second chapter talks about the protagonist of the book and the leader in the turnaround process of the Indian Railways, Mr. Sudhir Kumar, an IAS officer from Bihar. This chapter mainly describes the learning of Mr. Sudhir Kumar as an IAS officer of different levels and positions at different locations in Bihar. The next three chapters talk about three vital principles of successful renewal. Chapters Six and Seven talk about another vital element of renewal, that is, focusing on results. Finally, the book concludes with the way forward for the Indian Railways.

During the period 1999 to 2000, Indian Railways was near bankruptcy with a fund balance of Rs. 358 crore. Even the Rakesh Mohan Committee declared the Railways as a sick unit and recommended radical surgery in terms of restructuring the Railway Board and converting the organisation into a corporation. The book praises the Railway minister Mr. Nitish Kumar and argues that the foundations laid by Mr. Nitish Kumar helped the Indian Railways to march ahead with the turnaround. Nitish Kumar started the renewal of assets in the Railways and took actions through initiation of public private partnership, so that Railways dependency on the Central Government was minimised. He abolished the involvement of politicians in the Railway Recruitment Board. The book does not lose focus of the economic environment, and by the time the new minister Mr. Lalu Prasad Yadav came, the economy had started reviving. Mr. Lalu Prasad was greeted with suspicion, derision and contempt due to the allegations of corruption and mismanagement, but he showed interest in bringing Indian Railways back on track. The Minister travelled by second class, observed the loading and unloading of freight, talked to workers and managers and inspected the trains and railway

stations. The book on occasion describes the Minister as 'like Gandhi' and attributes the success of the turnaround to the 'wisdom and common sense of the Minister'. The Minister appointed Mr. Sudhir Kumar as the Officer on Special Duty. Chapter Two of the book mostly discusses about the childhood, early career and the learning's Mr. Sudhir Kumar got from the administrative responsibilities. His past learning's helped him explore the positive core of the Indian Railways. Whilst reviewing the reports and documents he observed that various committees have looked at Indian Railways' weaknesses and ignored its strength. The book projects Mr. Sudhir Kumar as a leader who approached the change keeping in mind the strength of the organisation.

Through a series of examples, the authors carve out the positive core of Indian Railways in Chapter Three. The authors explicate technical excellence, execution capability, system of check and balances, values of professionalism and a sense of pride amongst the people as some of the positive core of Indian Railways. In subsequent chapters, the authors mention how change agents are able to foster positive emotions through fostering confidence, trust and pride in the organisation. From arranging gloves, shoes and proper tools for the gang men to travelling with the loco drivers and making coolies as permanent employees are some of the measures taken by the Minister to foster positive emotions. Humility, coupled with patience and continuous persuasion on the part of the leadership were some of the elements that helped in mobilising support and fostering positive emotions amongst the people. The leadership realised that connecting to the soul and fostering positive emotions is not sufficient to bring about a turnaround. Focusing on outcomes and becoming business savvy seemed essential to make turnaround happen. The next few chapters talk about different activities adopted by the leaders to enable the Indian Railways to become business savvy and outcome oriented. In a vivid manner the book describes the leadership actions to orient the attention of the Indian Railways to pricing, freight loads, passenger amenities and train turnaround times so that freights can be 'heavier, better and faster'. The introduction of 'Garib Rath', differential pricing (through introduction of Tatkal facility), commercialisation of Railway Inquiry and increasing train lengths are some of the steps taken in that direction. Towards the end, the book concludes with the four principles for successful renewal: connecting with the soul of the organisation, fostering positive emotions, developing business knowledge and focusing on outcomes.

The book explains that the renewal in the Indian Railways came about as a result of three types of changes. One, fostering a commercial mindset; two, making certain technical changes to enhance carrying capacity of wagons and reduce time taken for loading/unloading activities; and third, taking steps to enhance interdepartmental collaboration, sensitivity to passenger concerns, improved cleanliness, safety and punctuality. The book claims that fostering commercial mindset was most successful followed by initiating technical changes to enhance carrying capacity of wagons. However, the book mentions that the third type of change was not as successful. The book also mentions some of the steps to be taken by the Indian Railways to continue being a success story.

This is a good informative book if one wants to know about the Indian Railways. The book provides a lot of facts and stories which describe the evolution, growth and functioning of the Indian Railways. Although the researchers mention that the book is research based,

some statements seem to be arising from the authors' experiences/hunch; for example, the authors hold the system of management education responsible for the ills (page 53) without any prior discussion or argument in support of it. The authors describe three types of changes and categorise them as successful, moderately successful and not so successful; without describing them in detail or by providing any evidence. The book talks about the three sets of actors involved in the change process; but most of the discussions were confined to one or at the best two sets of actors. The involvement of the rest of the Indian Railways is not as clear as it is in case of other two sets of actors. This is a well-written piece of work, although some repetitions could have been avoided.

Author's Profile

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Sushanta Kumar Mishra is a faculty in OB and HRM area at Indian Institute of Management Indore. His research focuses on micro aspects of organisational behaviour and issues pertaining to diversity. Some of his work has been published/accepted for publication in Academy of Management Best Paper Proceedings, Human Resource Management and Journal of World Business.

An Eye for Excellence

N. Ravichandran

Subbarao, E.C. (2009). *An Eye for Excellence*: HarperCollins Publishers, India - Price Rs. 595

The book under review titled *An Eye for Excellence* is authored by Dr. E.C. Subba Rao who served several distinctive years at IIT, Kanpur. The book documents the evolution and the institution-building process of IIT Kanpur as seen by a faculty member over a period of time. This is an important book in the context of higher education in India.

The book is organised in 10 chapters. The first chapter is about the genesis of IITs. The second chapter is devoted to a short profile of Dr. P.K. Kelkar, the Founder Director of IIT Kanpur. The third chapter is a brief account of various stakeholders of the Institute (IITK) as they evolved. This relates to the students, faculty, academic governance, academic administration, curriculum design and delivery, evaluation of academic performance and so on. The fourth chapter is an account of cooperation received from a consortium of universities in the United States in the development of IIT Kanpur. The fifth and sixth chapters profile a detailed account of distinguished students of IIT Kanpur and outstanding academicians in the faculty of IIT Kanpur. The seventh chapter profiles some outstanding departments of IIT Kanpur and some innovative initiatives taken by IIT Kanpur in the context of society. Chapters 8 and 9 describe the turbulence at IIT Kanpur and the manner in which it survived the turbulence. The last and concluding chapter provides an outline of challenges before IIT Kanpur.

This is a fascinating book to read. It brings out in one place the evolution, growth and challenges of one of the oldest technology institutions in the country. Although India has several leading institutions, the evolution of these institutions is not often documented. Dr. Subba Rao has attempted to provide meaningful insights, which made IIT Kanpur what it is. For a curious reader and/or an academician the book provides several meaningful insights into developing outstanding institutions in Indian context. Some of the issues that are discussed directly or indirectly in the book, which may be useful for administrators of educational institutions in Indian and similar environments, are summarised below.

1. Institutes of higher learning in India are a consequence of the pioneering vision of a political leadership soon after independence.
2. Although outstanding institutions can be made from private funds, India does not have many such examples (BITS Pilani may be an exception).
3. Several public institutions in India have benefited substantially from the technology, financial and human resources cooperation from the developed world. (Needless to emphasise the proposed globalisation of Indian higher education, this model is likely to become more popular).
4. Outstanding institutions are often created by visionary leaders. They bring energy,

- enthusiasm, professional attitude, dedication to the Institute purpose, selfless service, innovative methods and a humane approach, yet are humble in their attitude.
5. IIT Kanpur was blessed with an outstanding leader (Dr. P.K. Kelkar) in its formative years. His contribution in terms of faculty recruitment, student involvement in the academic affairs of the Institute, broad-based curriculum design, fair and transparent evaluation mechanisms, strong emphasis on research, focus on quality teaching, enabling environment to publish in peer-reviewed journals, encouragement of the faculty in the Institute to develop teaching material and ability to generate funds, nurture international collaborations, manage the local and federal governments and build sustainable international relations has contributed in a big way to the rapid evolution of IIT Kanpur as an important education institution.
 6. World-class educational institutions (like IIT Kanpur) focus on a specific discipline, but emphasise on a broad-based approach to education in that chosen discipline.
 7. IIT Kanpur is a wonderful example of an outstanding virtuous cycle. The cycle includes demanding students who in turn attract outstanding academicians as faculty. This powerful combination leads to a self-perpetuating eco-system of excellence in education. This is the foundation for quality research, which leads to recognition both in India and abroad. A combination of these attributes creates a powerful brand for these institutions. Such a powerful brand enables these institutions to move from one level of excellence to next level of excellence.
 8. IIT Kanpur has evolved based on a strong foundation of involving various stakeholders such as students and faculty in academic processes of course design, delivery and evaluation (even though industry is missing in this composition).
 9. World-class institutions often contribute to the society by knowledge creation, propagation and its utilization for the welfare of the society. IIT Kanpur is a shining example. The two chapters on faculty and students graphically describe the accomplishments of the IIT Kanpur students and faculty in both the Indian and global context.
 10. Often world-class institutions in India pay very little attention to succession issues of leadership. IIT Kanpur is not an exception. There has been some difficulty experienced by the Institute after the departure of Dr. Kelkar.
 11. World-class institutions select a few departments and invest their resources and energy in developing these departments. IIT Kanpur has done it by developing and nurturing the Chemistry, Computer Science, Material Science, Aeronautical and Nuclear Engineering departments.
 12. Academic institutes in India tend to focus narrowly on faculty resources, enabling mechanisms for academic environment, curriculum design, delivery and evaluation. Inadvertently, the supporting staff and their welfare are neglected. Community welfare is a casualty in the context of overriding obsession towards nurturing academic excellence. IIT Kanpur is not an exception.
 13. Publicly funded institutions are located across the length and breadth of this country. The motivation for locating these institutions in varied cultural context is to use them

as a catalyst to bring a balanced growth in developing India. Often these institutions are nationally important institutions. Therefore, they are able to attract (albeit with some difficulty) academicians of repute. However, the supporting staff usually comes from the local environment. This does create a tension in managing the day-to-day affairs of the institute. Academic administrators have to spend additional time and energy in trying to balance this disconnect between the regional talents employed in non-teaching positions and the global talent employed as faculty members and academic resources.

14. World-class institutions need a very strong interface with industry or society depending on their area of operation. Locating institutions in remote areas (which are characterized by lack of industry development) brings additional burden to the academic administration. To that extent, the accelerated growth of these institutions is limited. They take longer time to realise the full potential.
15. Institutions of repute need to balance the professional and life ambitions of varied stakeholders, namely the students, faculty, staff, community members and the local population. The accomplishment of the institute is directly proportional to the effectiveness with which these concerns are addressed. Often in academic institutions, there is a tendency to neglect staff welfare measures, community development initiatives and provision of basic infrastructure facilities to improve day-to-day life. IIT Kanpur provides an example to refocus on some of these areas to sustain the excellence of academic institutions in India.

Dr. Subba Rao has done a great service to the academic community and academic administrators by providing a road map as to what makes a great institution and how to create one and possibly the challenges in retaining the excellence of these institutions. Although the book has chosen to address an important need, a curious reader would like to see several specific anecdotes related to the evolution of IIT Kanpur. The book has devoted two long chapters to profiling the students and faculty of IIT Kanpur and their accomplishments. Although this is useful, the charm and impact of the book would be much more if there are several anecdotal stories related to IIT Kanpur. Nevertheless, it is a pleasant book to read for an academician or an administrator.

Author's Profile

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N. Ravichandran graduated from Indian Institute of Technology, Madras in 1980 with specialisation in Applied Probability. He joined Indian Institute of Management Ahmedabad as faculty in Production and Quantitative Methods Area in 1980.

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