CHAPTER - I

INTRODUCTION

The Indian banking system has played a key role in the overall economic growth of our country by mobilising the savings towards financing a range of diverse productive and viable activities. Through nationalisation the banking system was directed to promote broader economic objectives by extending its geographical spread and functional reach. (ICAI, 1985). Traditionally, banks in India have been making advances more on the basis of security offered than on scientific appraisal of the project to be financed. This attitude by the banks is changing and the advances are now being increasingly related to a systematic appraisal of the economic, technical and managerial viability of a project (Gupta, 1986; Kini et.al., 1987).

1.2. The Functions of the Nationalised Banks in India.

The main functions carried on by the nationalised banks included credit deployment and savings mobilisation. While the banking system made spectacular progress in its functional spread and geographical reach, it has in the process suffered, seriously, in the form of decline in productivity and efficiency which resulted contaminated loan portfolio. (Tannan, 1995; Bedi et. al., 1989; Narashimham, 1991; Middleton, 1994; Kakodkar, 1995; Bank for International Settlement, 1993; Khan, 1980; The Institute of Chartered Accountants of India [ICAI], 1985).

1.3. The Sound Principles of Commercial Bank Lending.

It is to be ensured that the advances have been made by the bank on the sound banking principles considering safety, liquidity, profitability, risk elements, purpose orientation, security and national priorities (Kini et. al, 1987). On the otherhand, proper
follow up is required for timely recovery of interest and strict adherence to the repayment schedule. In inflationary situation timely recovery of loans enhances the possibility of interest earning for the Financial Institutions in India (Murthy & Reddy, 1988). A close look into the affairs of nationalised bank lending in India reflects that more than often the advances became irregular, doubtful of recovery or even bad of recovery (Narasimham, 1991). This was manifested in the recent appraisal which proclaimed the deterioration in the financial health of the banking system as the consequence of such trend (Narasimham, 1991; Pandya, 1992).

1.4. The Lending Function of Commercial Banks.

The lending function i.e. credit deployment of a commercial bank is of utmost importance. It is, therefore, necessary for a careful consideration of a banker with regard to loans and advances. Several factors, explicit or implicit, such as legal, political, social, cultural, ethical, economic and psychological, influence lending decisions. (Narashimham, 1991; Reserve Bank of India [RBI], 1995; Datt & Sundaram, 1995; Joshi, 1994).

1.5. The Decisions Pertaining to Loans And Advances.

It is, thus, imperative that any decision pertaining to loans and advances, by the banks is of utmost significance in order to avoid inadequate appraisal of credit application in terms of productive use of credit and insufficient post-credit supervision, affecting recovery of dues and increased loan delinquencies. The efficient lending warrants the lenders as decision-makers to perceive the critical job of lending.

However, the actual banking operations are conducted by or
through the branches where branch managers play a crucial role. In fact, it is the branch managers who take active part in the decision-making relating to loans and advances. (Bedi et al., 1979; Narasimham, 1991; Roy, 1993, ICAI, 1998). Therefore, the decision-making activities of the branch managers appear to be vital so far as lending process of the banks is concerned.

1.6. The Psycho-Social Factors Affecting The Credit Decision Process.

The whole credit process is not only dependent upon material factors but is contingent upon the decision-making by the concerned branch Managers. Human factors, thereby, have tremendous role to play on credit decision-making. Decision-making has been defined by several authors as a process through which one makes a conclusion or decides a course of action, choosing between alternatives. Thus, a decision-maker's behaviour depends much on the psycho-social factors which in turn influences the cognitive processing leading to a decision. (Taylor & Dunnette, 1974; Macrison & Taylor, 1976; Slovic, 1986; Humphreys & Revelle, 1984; March & Shaphira, 1987; Klein, 1983; Pagino, 1992; Weihrich & Kuntz, 1994).

1.7. Broad Objective of the Study.

The present study, thus, attempts to explore the psycho-social factors affecting the decision behaviour of the branch managers in relation to lending process of a nationalised bank.

Broadly speaking, the study has the following twin objectives:

(a) To attempt a diagnostic exploration of the psychological, perceived instrumental and perceived social (socio-economic) factors affecting the decision-making process in relation to
fund lending by the branch managers of a nationalised bank; and

(b) To evolve a model thereof to identify the relative contributory effects of the factors stated in (a) above on the decision performance of the branch managers in their lending process.