Attitudes of Rural Branch Managers in Madhya Pradesh, India, toward Their Role as Providers of Financial Services to the Poor

Howard Jones
Marylin Williams
Yashwant Thorat
Abha Thorat

Abstract: Discussions on banking reforms to reduce financial exclusion have referred little to possible attitudinal constraints, on the part of staff at both branch and institutional levels, inhibiting the provision of financial services to the poor. The research project, funded by the ESCOR (now Social Science Research) Small Grants Committee, has focused on this aspect of financial exclusion. The research commenced in May 2001 and was completed in April 2002. Profiles of the rural bank branch managers, including personal background, professional background and workplace, are presented. Attitudes of managers toward aspects of their work environment and the rural poor are examined, using results from both quantitative and qualitative analysis. Finally, the emerging policy implications are discussed. These include bank reforms to address human resource management, the work environment, intermediate bank management and organization, and the client interface.

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 140

Although financial services are seen as important instruments in reducing poverty (Short, 2000), significant segments of urban and rural populations are not served by conventional financial institutions (Marr, 1999). Perceptions of high costs and high risk divert banks from lending to small-scale operators in rural areas. Moreover, in India "the failure of the specialised rural credit institutions to become self-financing under cheap credit policy makes them deviate, ultimately, from their pre-laid objective of lending to the rural poor" (Shylendra, 1994, p. 1).

The informal financial sector continues to serve the rural and urban poor in India despite massive expansion of institutional credit. Although informal agents, like pawnbrokers, offer advantages to poor clients in terms of speed, minimal paperwork, small and multiple loan provision, and embeddedness in local culture, they generally provide short-term, low value, and high interest finance (Jones, 1994) within a highly localized area of operations. While the high quality of financial services from NGOs and other microfinance institutions (MFIs) in India is recognized their combined outreach is less than 0.5% of the population (Thorat, 1999).

A bank's role in providing financial services to the poor is debatable. For Bangladesh, McGregor (1988) suggested there are no grounds to believe that the banks have been willing or able to operate as development institutions for the poor. McKee (1989, p. 997) noted, however, that given the resources of the banking system, "changing its behavior even at the

Howard Jones teaches and researches in the area of financial services for poverty alleviation in the International and Rural Development Department at the University of Reading. Email address: j.h.m.jones@reading.ac.uk.

Marylin Williams teaches in the School of Psychology and researches in the area of occupational psychology, survey methods, and organizational development and change in the Department of Psychology at the University of Reading. Email address: m.j.williams@reading.ac.uk.

Yashwant Thorat presently Executive Director, Reserve Bank of India. He has a long experience at various levels with issues relating to rural credit and microfinance. Email address: ythorat@hotmail.com and yspthorat@rbi.org.in.

Abha Thorat was the research assistant on the research project. She now works for Willis Limited, a global insurance broker. Email address: a.thorat.99@cantab.net.

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 141

margin offers the potential to improve the livelihoods of millions of poor people."

McKee's view is particularly resonant for India where, although the rural banking sector has an unrivalled physical presence with nearly 33,000 Commercial and Regional Rural Bank branches, the quality of outreach to the poor leaves scope for improving the low recovery rates, impaired viability of bank branches, varying degrees of bureaucratization and politicization, and erosion in staff morale (Thorat, 1999).

In addition to physical presence, banks offer advantages by being regulated institutions with established administrative and accounting systems, by not being dependent on scarce and volatile donor resources, and by offering a range of financial services. Moreover, for reasons ranging from enhancement of public image to diversification into new markets, some banks are increasingly interested in the microfinance sector (Baydis, Graham, & Valenzuela, 1997).

However, when banking reforms required to promote financial inclusion are discussed, insufficient attention is paid to the possibility that the attitudes of staff, at both branch and institutional levels, may constrain the provision of financial services to the poor. This aspect of financial exclusion, with reference to rural banking in India, was the focus of the research reported here.

Background to the Research

To meet the needs of the poor, the behavior of an organization's staff toward their clients requires revision and tailoring (Wright, 2000). Johnson and Rogaly (1997) noted how disdain and contempt meted out to the poor by bank staff may not have a monetary cost, but the acts do have a cost all the same. Access to banks by small-scale borrowers can be inhibited by the nature, characteristics, and requirements of these formal financial institutions (Jones & Sakyi-Dawson, 2002).

By identifying what constrains banks from providing services to the poor, social barriers and issues of organizational

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 142

culture have become evident, but have usually been expressed in rather general terms. Baydas et al. (1997) noted that microfinance has a different culture from that of traditional banking practices, leading to a separation rather than an integration of microfinance activities within banking organizations. With reference to the provision of bank loans to groups of poor clients, Harper (2000) described how staff attitudes discouraged entry into new markets and make it necessary for NGOs to act as matchmakers between clients and banks.

Harper (2000) reports that background and method of recruitment for bank staff are factors in shaping the staff's attitudes; bank staff are usually male, and physically, economically, and socially distant from poorer people. Financial services for the poor can be regarded at the corporate level as a second-class activity within an unsupportive organizational culture (Baydas et al., 1997). Bank staff resist visits to Indian slum areas, have difficulties gaining information about clients, and experience ambiguities in bank goals (Everett & Savara, 1991). Such role ambiguities may contribute to low satisfaction and high stress (Furnham, 1997) and impinge on facets of motivation (Hackman & Oldham, 1976). Banks introducing microfinance programs for the poor may appoint young staff from outside the bank, finding them more receptive to the special mission and practices of microfinance programs (Baydas et al., 1997).

Corporate culture and attitudes toward the poor can be heavily influenced by government policy. Schemes that the rural banks have been required to implement in India have "conditioned" banks to believe that poorer people are not potentially valuable customers (Harper, 2000).

To identify in greater detail possible attitudinal constraints in the provision of banking services to the poor, this research combined the perspectives of occupational psychology and development finance. The aim of the research described here was to assess the attitudes and perceptions of rural bank managers toward their professional role as providers of financial

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 143

services to the rural poor. We conceptualized this role in relation to the roles of their clients and to the roles of the variety of people within their organizations who manage or support them. By asking managers to focus on their professional roles, we simultaneously explored their views of themselves, their own situations (in terms of goals, resources, incentives, and risks), their views of their clients and their cultural contexts, and their views of their organizations, their members and leaders, and their culture.

Location, Sampling, and Research Methodology

As an exploratory process, the project enabled us to identify and understand key concepts regarding the attitudes and behavior of rural bank staff. Following a literature review, workshops in Reading and workshops with local stakeholders in India explored research objectives and methodologies.

Subsequently, field research was conducted within three districts in the state of Madhya Pradesh (MP)—a state with an extensive banking infrastructure (1389 rural branches of Commercial Banks and 1284 branches of Regional Rural Banks, or RRBs) and with relatively few alternative financial service providers. Three districts (Betul, Datia, and Indore) were chosen to reflect the main socioeconomic characteristics of MP.

Table 1 shows the three districts to be different in terms of size, population density, concentration of urban population, and proportions of Scheduled Caste (SC) and Scheduled Tribe (ST) populations. In terms of the overall Human Development Index, Indore ranks number one out of 45 districts in the state (former boundaries), while Datia and Betul are ranked 27 and 41 respectively. The relative ranking changes somewhat for the Gender Development Index. These figures may reflect the more urban and modern environment of Indore, the more "tribal" egalitarian society of Betul, and the more feudal nature of society in Datia.

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 144

Table 1. Profile of Sample Districts

	Betul	Datia	Indore
Area (sq. kms.)	10,043	2,038	3,898
Population density/sq. kms.	118.0	194.0	471.0
Urban population (%)	18.6	22.4	69.4
Scheduled Caste (SC) population (%)	10.8	24.7	16.7
Scheduled Tribe (ST) population (%)	37.5	1.7	5.5
Human Development Index Rank (erstwhile MP with 45 districts)	41	27	1
Gender Related Development Index (erstwhile MP with 45 districts)	17.0	35.0	7.0
Cropping intensity	119	106	142

Note. From the Madhya Pradesh Human Development Report 1998. Population figures come from the 1991 census.

Twenty rural bank branches were randomly selected from each of the three districts; these consisted of 48 commercial bank branches and 12 RRBs (no RRBs exist in Betul). These 60 branches represented substantial proportions of rural banks in each area: for two districts (Indore and Betul), the sample represented nearly half of all rural banks, while for Datia it represented nearly three-quarters of all rural banks in the district.

An interview schedule was used to obtain information from the branch managers, after pretesting and revision in Madhya Pradesh's state capital, Bhopal. The schedule involved information about managers and their current posting, enabling their demographic profiling. Second, respondents were asked to express their levels of agreement (on a 5-point Likert scale) with each of 52 statements to permit measurement of attitudes toward the poor: the financial service needs of, and provision for, the poor; the rural work environment; the role of the bank; and the role of the bank manager. Half the statements represented positive orientation toward the facets of

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 145

attitude, half represented negative feelings. Positive and negative statements were randomly mixed within each of the three main themes: the rural context, views of poor clients, and the branch managers' views of themselves and their situation. Third, a series of open-ended questions were asked to elicit branch managers' perceptions of the contrasting features of successful and unsuccessful rural bank branches. Fourth, a second open-ended section included questions concerning the branch managers' views about themselves and their work, how their managers viewed them, and their families' views about their post.

Managers were interviewed at their branch or at district headquarters, individually, having been assured of confidentiality by the interviewer. Average length of the interviews was 1 hour.

Data Preparation

Demographic information was gathered about characteristics of each manager and his (all were male) career (age, marital status, children, qualifications, social background, years of service, and number of rural postings). Demographics also provided information about each manager's branch (distances between his residence and the branch and district headquarters, staffing, number of vouchers, and number of vouchers below the poverty line) and were scored as continuous and/or categorical variables, as appropriate.

Responses to the 52 attitude statements were scored from +2 to –2 (most negative), reverse scoring was used for negatively worded statements, and an overall attitude mean (Cronbach's alpha = 0.8135) was obtained. In addition, items pertaining to rural context, views of poor clients, the managers' views of themselves, and other variables of interest, were grouped to provide means for subsequent analysis. The composition and reliabilities of these variables are shown in Table 2.

These item groups emanated from research questions; we were also interested in item groups from the respondents'

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 146

perspectives. A principal components analysis by varimax rotation was employed to discover any such item groups or factors. From the scores on 24 items, selected to reflect all the issues addressed and retain the balance of positively and negatively

Table 2. Means and Reliabilities of Attitude Variables

Group	Group Name	No of Items	Cronbach's Alpha	Mean	Standard Deviation
ATTMEAN	All questions	52	0.8135	-0.0968	0.31486
RURCTXT	Rural Context	7	0.5911	-0.5071	0.50485
PRCLIENT	Views of poor clients	7	0.6813	-0.1548	0.62701
BMSELF	BMs view of selves	10	0.7252	-0.165	0.58825
FAC1	Impact of job on self/ relationships	6	0.7232	-0.8333	0.64659

worded statements, eight components with eigenvalues greater than one were extracted, only the first two of which accounted for more than 10% variance. The second component reflected the managers' views of their roles, mapping closely onto an item group already identified. The first component was of interest, however; Fac1 involved items concerning the managers' perceptions of their work as part of their lives, the impact of their job on their views of themselves and their relationships with others. This factor provided a further item group (see Table 2).

A series of analyses of variance and Pearson's correlational analyses were carried out to investigate the relationships between variables.

Branch managers commented on the attitude statements and responded to questions about their views of the contexts of successful, unsuccessful, and their own branches, and about their own careers and roles. Analysis and interpretation of their answers provided insights, encapsulated in the summaries below.

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 147

Results

Brief profiles of the sample rural branches are shown in Table 3, for all branches and separately for Commercial Banks and branches of Regional Rural Banks (Banks specifically established in 1975 for lending to rural target groups, with equity owned by the sponsoring Commercial Banks, the relevant state government, and the Government of India). The average number of vouchers (records of financial transactions), a commonly used measure of bank business, totalled 88 per day; more importantly, just over a quarter of the branches processed fewer than 50 vouchers per day, indicating low levels of business. The average number of staff per branch (non-clerical) was just over three. The average distance of the 60 branches from their respective district towns was 34 kms.

Most managers were from a nonrural and nonpoor background; a small proportion belonged to Scheduled Caste (SC) and Scheduled Tribe (ST) communities. Of the SC and ST managers, most were placed in Datia and Betul, districts with substantial Schedule Caste and Scheduled Tribe populations respectively. Nearly half the managers had three or more children, and only about a third resided in the village of posting. Those managers who commuted daily to their branches had a journey averaging 25 kms.

Table 3. Profiles of Sample Rural Branches

	Details	Total (N = 60)	Commercial Banks(N = 48)	RRBs (N = 12)
Distance from district HQ		34 kms	34 kms	35 kms
Average number of staff	Scale I-III, + clerks	3.35	4	2
	Subordinate staff	1	1	1
Average number of vouchers per day		88	97	49

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 148

Notably, most Commercial Bank managers (93%) were promotees from the clerical ranks. Between them the branch managers averaged 20 years of service in their bank; more than 6 years were spent in rural postings. Although for the Commercial Bank managers the average number of years of rural posting was half of that for the RRB managers, this was still twice as long as the stipulated period of 2 years in rural postings.

Overall Attitudes of the Rural Bank Managers

The overall (mean) attitude score for the managers was negative (- 0.10): the majority, 60%, had negative attitude mean scores, with 37% expressing an overall positive view. This overall attitude measure incorporates views of characteristics of the rural poor (e.g., as clients), of working in a rural context, and of themselves within the banking context of providing financial services to the poor; that the overall mean was negative indicates that many were dissatisfied with their work situations.

In order to discover which characteristics of managers might be associated with their overall attitude, a number of analyses were carried out; the following significant findings were of interest:

- Managers with an urban background were more negative overall ($M = -0.207$) than both those with a semiurban ($M = -0.18$) and those with a rural ($M = 0.021$) background: [$F(2,57) = 3.59$, $p < 0.05$, $MSE = 0.041$].
- The impact of the rural context was again seen in the contrast between overall attitudes of managers in Datia (the least developed district) ($M = -0.237$) and those in Indore ($M = -0.01$) and Betul ($M = -0.53$), with the difference between mean attitude of managers in Datia and those in Indore being significant [$F(2,57) = 3.34$, $p < 0.05$, $MSE = 0.041$].
- A curvilinear relationship existed between overall attitude and years of service such that those with less than

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 149

15 years of service were more negative ($M = -0.309$) than those with between 15 and 25 years of service ($M = -0.027$), while those with more than 25 years service ($M = -0.118$) were also negative; [$F(2,57) = 3.79$, $p < 0.05$, $MSE = 0.091$].

- There was a positive correlation [$r(58) = 0.294$, $p < 0.05$] between the amounts of training undertaken by managers and their overall attitude scores.

Relationships between Managers' Attitudes and the Characteristics of the Managers

The means of the subscale scores for the groups of attitude items referring to "rural context," "poor clients," and "themselves" are shown in Table 2. Managers expressed more negative views of the rural context than of either poor clients or of themselves [$F(2,58) = 13.25$, $p < 0.01$, $MSE = 0.079$].

Examining each subscale in turn, it emerged that

- The curvilinear relationship between attitude toward rural context and years of service was similar to that between overall attitude and the years of service variable: those with the fewest (less than 15) years of service had more negative attitudes toward the rural context than those with the middle range of years of service (between 15 and 25 years), [$F(2,57) = 7.90$, $p < 0.05$, $MSE = 0.099$].

- Views of poor clients were related to the background of the managers—those with urban backgrounds were significantly more negative in their views than those with semiurban backgrounds [$F(2,57) = 3.56$, $p < 0.05$), $MSE = 0.08$]; their views also appeared more negative than those of managers with rural backgrounds, but this was not a significant effect.

- Views of the managers toward themselves again reflected district differences—those in Datia were more negative

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 150

> than those in Indore [$F(2,57) = 3.32$, $p < 0.05$, $MSE = 0.076$]. There were positive correlations between the managers' views of themselves and both the total amount of training they had received [$r(58) = 0.413$, $p < 0.05$] and, more specifically, the amount of rural training received [$r(58) = 0.313$, $p < 0.05$].

In conclusion two points should be made. First, although the views of managers toward rural context are overall more negative than their views toward clients and views toward themselves, particular subsets of questions revealed very negative attitudes toward particular aspects of poor clients and of themselves and their situations. Second, the more open-ended section of the interview schedule provided further opportunities for managers to express their negative feelings about poor clients and about themselves.

Views of Rural Context

Around two-thirds of managers reported they found life in rural areas pleasant and interesting: "I like my rural posting because I get recognition from mass society here. It is not like that in cities." However, as noted when looking at attitude scores, such views vary with the location of posting. In Datia, a lower proportion of managers were well disposed to rural life, possibly due to the problem of dacoits (bandits). Moreover, although two-thirds of the managers had positive views of rural life, only a third of the managers actually resided in their villages of posting. Again, this figure varied by district. Only ten percent of the managers in Indore resided in their "work" villages, though this probably reflects their favorable infrastructure and proximity, facilitating commuting.

Many managers regarded a prosperous "service area," good infrastructure, and good branch location as important for achieving a successful branch. The prosperity of the area was expressed in terms of good agricultural facilities, good irrigation or regular rainfall, and particular crops (e.g., sugarcane, flowers, vegetables) or particular activities (e.g.,

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 151

dairying). Good infrastructure included such items as roads, electricity, schools, and markets, and by good location the managers emphasized proximity to a main road and to semi-urban and urban areas: "I have achieved all targets but not by helping the poor. I have got big business from the cities given the location of the branch . . . it is close to the city and there are new colonies."

A common feature of rural areas is migration to secure employment (de Haan, 2000); there were mixed views on how this impacts the provision of banking services. Although a third of managers felt the rural poor who migrated learned better banking habits more quickly than those who remained in the village, a high proportion of managers (80%) felt migration made it difficult for them to maintain contact with these people.

Local context is also characterized by local political interests and influence. Around 84% of the managers reported that important people in the local area tried to influence the bank over who would receive concessional credit. As one put it: "The local MLA [Member of Legislative Assembly/State Parliament] called my boss to tell him to request me to give a particular loan. My boss told me we have to adjust in rural postings." Managers' views on government-sponsored schemes are also rather negative, as discussed later.

Views of Poor Clients

Characteristics

Although nearly all managers viewed the poor as having a contribution to make to the development of the Indian economy, just over half viewed lending to the poor as high risk. Nearly all managers associated the poor with high loan diversion, and a large majority agreed that the poor think it is the branch managers' responsibility to ensure repayment of loans. Such negativity may be associated with government-sponsored poverty alleviation schemes for the poor; many managers thought there was a good chance of recovery with commercial lending to the poor.

Given the postreform emphasis on profitability, a number of managers indicated that their own worries about risk and repayment negatively impact their lending to the poor; one explained that "recovery is such a big issue, so that the branch manager lends money to the top 1% of the Below Poverty Line so that recovery is ensured."

While many managers believed women clients compared well to men, being superior in trustworthiness (73%), repayment (80%), and skills in enterprise development (62%), more (87%) thought that allocating credit to women resulted in men using women to obtain loans.

The importance of good clients to the success of a rural branch was expressed in both general (educated, responsible, honest, united, complaint free) and banking-specific (knowledge, repayment behavior) terms.

Client relations

Managers acknowledged that relations with clients do matter; many (70%) emphasized the need for politeness, trust, mutual respect, and understanding in dealing with clients; their suggestions for facilitating such relations included contact, residing in the village, understanding the psychology of villagers, educating the villagers, treating clients equally, and having suitable banking hours. As one manager said: "The rural customer wants attention; they don't mind being kept waiting, but they want to be recognized by the Branch Manager and staff. The way we treat customers in rural areas has to be very different from the way we treat them in urban areas." Good relations within the branch were also felt to be important: "The employees, the Branch Manager and the customers form a triangle . . . if this triangle has a smooth flow then there will be growth on all sides."

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 153

Financial service needs

As discussed below, many managers were highly critical of government-sponsored or government-directed credit schemes; nearly half thought providing concessional credit reduced the poor's independence, but a majority (58%) believed that concessional credit was the best way to help them. Similarly, only 9 of the 60 managers thought the poor should pay the same rate of interest as all other clients, but nearly all agreed that the nonpoor try to obtain such concessional credit.

A number of managers stressed the importance of providing flexible credit, also pointing out that loan diversion arose because the poor couldn't obtain money from the banks for what they needed.

Given the present policy stress on group lending in India, it was striking how negatively such schemes were regarded by managers, taking both the client's and the bank's perspectives. Nearly all (93%) felt poor clients would prefer individual loans from banks, and nearly as many believed that establishing and maintaining groups was more time-consuming than providing individual loans to the poor. Moreover, nearly half thought it harder to recover loans from groups than from individuals.

Managers' comments identified some problems arising in implementing group lending schemes. Forming groups can be problematic because of defaulters, groups can be formed for the wrong reasons, and poorer members in the village can be squeezed out: "Once they get loans, they forget about the groups"; and "The persons whose husbands are powerful control the group more. The poor are deprived." One manager thought it was difficult to explain the group system when this system was itself little understood at the corporate level.

Views of Themselves and Their Situations

Present and future careers

A quarter of the managers chose a banking career for reasons including status and security, family background in banking or business, desire to help the poor, and the relative lack of

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 154

corruption in this service. Most (88%) thought their work as rural branch managers was vital to their bank's overall success. Only 5 of the 60 managers expressed dissatisfaction with their original career choice.

Managers (nearly two-thirds) cited that their work being recognized and rewarded, being varied, providing freedom and respect, promising good postings and promotions, and offering opportunities to help villagers were reasons for being satisfied with their careers.

However, the 25 who were unhappy with their careers referred to promotion issues, the perceived inequality between promotees and direct recruits ("the difference between the Indians and the British in the Indian army"), work pressure, and postings as sources of dissatisfaction.

Managers' views about their future careers were even less rosy, mentioning bad conditions, lack of a proper incentive/reward system, downsizing and contraction in the banking sector, lack of consultation, negative attitudes of sponsor banks toward the RRBs, high workloads, political interference, and again, promotion and posting arrangements. Only a third found their rural posting the most fulfilling part of their career.

Training

A successful rural bank branch, over half the managers stressed, requires a good branch manager: trained, competent, hard working, a good team leader, able to take risks, an agricultural expert, not corrupt, and not involved in local politics.

However, although 56 of the 60 branch managers reported receiving some training, only 18 of the 48 Commercial Bank managers (as opposed to all the RRB managers) had received rural-specific training; a higher proportion of managers had received three or more training inputs in Indore compared to Betul and Datia.

Where managers felt positive about training received, they attributed this to increased knowledge, confidence, and motivation. Practical aspects of training ("The RBI training was

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 155

very good . . . practical . . . taken to a site") were appreciated by some; others felt the training was good for providing a theoretical foundation but that practical aspects could only be learned on site.

The 21 managers who had not found their training useful for rural work—because it was too theoretical, inappropriate for rural postings ("they give your forex training and send you to rural areas"), and out-of-date—believed that they had been sent for the sake of formality.

Resources

Many managers (72%) found their resources (staff, equipment, accommodation) inadequate. Good premises, means of communication, and availability of electricity were regarded as essential for a successful branch by a number of managers, as were good staff (trained, cooperative, not corrupt, motivated, flexible, practical).

Posting

As noted, much of career dissatisfaction concerns issues about the posting of bank staff in rural branches. Ironically, given their criticisms of the posting system as unfair, the majority of managers agreed they would arrange to be posted to an urban branch if they could influence their superiors. Over a third of managers indicated one or more of the following: that rural branch postings should not be compulsory and treated as punishment postings, they should not be for longer than two years, and they should be linked to promotion. One believed that "the bank has no analytical system on whom/how many of us have been posted to rural areas."

Family

Few branch managers had rural family backgrounds; most (particularly those posted in the more rural Betul and Datia areas) thought that rural postings seriously disrupted family life—their families' views were felt to be negative, due to the cost of double residences, little time for the home, and the lack of

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 156

education facilities for the children. Those managers reporting positive family views of rural posting mentioned the proximity of posting to family home or proximity to a town or city.

Financial Service Provision

Despite viewing the poor as high risk and being dissatisfied with rural posting systems, a high proportion of managers think that banks should provide financial services to the poor directly, rather than through intermediary organizations. Over two-thirds also think it is possible for banks to make a profit and help the poor. However, prioritizing these two objectives may be conflictual for managers: "Profit and development are two different things. The concept of profitability now guides banks; only NGOs can do development."

Most managers characterized successful rural branches by profit making, target and good inspection achievement, good identification of borrowers, good and low cost deposits, good loan recovery, business and the customer base increase, and aid to the poor. Nearly half also indicated that for success, there should be no forced lending and that targeted lending should be discontinued (discussed below).

Views of Their Organization And Government

General Management

A number of managers stressed how important an understanding of higher management is for a successful rural branch, yet their views of such management tended to be negative, feeling that the difficulties of the rural bank manager's job were not recognized; 69% of commercial and 50% of RRB branch managers felt that their branch was not well managed by more senior managers.

Nearly a third of the managers felt that higher management had a negative perception of their particular rural bank branch. Here, two views on the approaches of their own managers were prominent: (a) that their managers expect more and more business and (b) that their managers have a top-down

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 157

management approach: "I am viewed as a criminal because of high nonperforming assets," for example. This is a particular problem where there is a legacy of bad debts from previous managers.

Incentive Systems and Assessment Criteria

Dissatisfaction with existing incentive systems and performance measures was expressed: it is difficult for the rural branches to compare well with their urban counterparts. An RRB manager stressed how assessment criteria were particularly problematic: "If you judge success by profits we are doing well, but this is leaving the upliftment angle alone. The reason for setting up the RRBs has been defeated; we are caught in an identity crisis where we are neither commercial nor development enterprises." Moreover, existing incentives are felt inadequate: "giving certificates helps no one; real financial rewards must be given. A pat on the back does not help."

Role of the Government

Concessional credit schemes sponsored by the Government of India received negative comment, one manager noting how traders charge higher rates when they hear the word "scheme," another stressing how the standard model implemented by the government ignored differences between rural areas, and another stressing the need for fewer schemes. Schemes are felt to impact negatively on clients' attitudes: "You should stop this subsidy approach that corrupts the borrower."

Managers also argued for reductions in government interference, the frequency of policy changes, corruption, and the number of government agencies involved; government officials sanctioning loans should also be accountable for them. More positively, nearly a third expressed the need for government help in achieving a successful branch, via assistance with loan recovery, coordination between agencies, and development of local infrastructure.

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 158

Reactions to Preliminary Findings

In January 2002 two workshops were held in the Reserve Bank of India office, Bhopal. The first gave the collectors from the three districts and also district-level lead bank officers the opportunity to hear our preliminary findings and to express their opinions about emerging results. The second involved senior officials from RBI and NABARD (National Bank for Agriculture and Rural Development), state-level banking officials from the zonal and regional offices of Commercial Banks, and chairmen of Regional Rural Banks.

At that stage only a preliminary analysis of the bank managers' profiles and attitudes had been made; only a few examples of verbatim comments from the qualitative work could be given. Even so, it was useful to hear stakeholders' views on the veracity of the findings and on their policy implications.

The district officials tended to focus on the branch managers' attitudes toward local context and also had some interesting observations to make regarding managers' lengths of service and why these affected their views.

Views of the district officials themselves varied. One felt that the district of posting had no influence on attitudes because branch managers are always moved around, and he made the interesting point that in his view, a manager transferred from a rural area to an urban branch would give even worse service to the urban poor. The officer in charge of Datia, the district where managers had the most negative attitudes, recognized that this district was most distant, least approachable, and most feudal in character, and that when posted here some branch managers kept families in neighboring district towns because the facilities in Datia town were limited. The views of the district officials also varied regarding the effects of commuting on the attitudes of bank staff. While one felt that commuting to the branch did not impact the managers' role negatively, another argued it was difficult for such managers to gain the "faith" of villagers.

We have noted how years of service does negatively impact the branch manager's overall attitudes and their views toward rural contexts. Those managers with less than 15 or more than 25 years of service are more negative. District officials noted that for the younger managers, ambition was not related to welfare objectives. These officers belong to an era of a market-oriented, rather than state-driven, economy; older managers are more risk averse, as they have previously worked in regional and zonal offices and may have relatively little experience making lending decisions. The district officials also pointed out that older rural branch managers may face more complex family issues, having to arrange for the care of aging parents as well as children's education.

The state-level bank officials in the second workshop tended to focus more on the views of the branch managers toward themselves and their organizations. Senior bank officials felt promotion was a problem for all bank staff, not just for rural branch managers. However, it was recognized that failing to achieve targets would reduce promotion prospects. Further, the narrowing of promotion avenues, especially in the postreform period, was resulting in an increasing age profile of branch managers who found it progressively more difficult to move children and parents to a rural posting.

They agreed that the urban background of 85% of branch managers, given the location of nearly 65% of public sector branches in rural and semiurban areas, was problematic. Many banks no longer appoint agricultural finance officers, so officers with other specializations and urban backgrounds are of necessity being posted to rural areas. This situation demands proper rotation of staff, but given staff shortages, the difficulty of moving staff from rural areas within the stipulated time periods was described. Staff from metropolitan cities are even more reluctant to accept rural postings, more often having working wives unable to secure comparable employment in rural areas and having children in good schools and colleges.

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 160

Consequently, staff from metropolitan areas are likely to resist transfers to rural areas.

Two more points were made regarding staffing at the rural branch level. First, it was noted that promotees may have more negative attitudes than direct recruits, because they are generally more reluctant to make credit decisions. Second, while recognizing that more rural branch staff are needed, business and profitability of the branches must also be considered.

Here the conflict between development and business objectives, so apparent in discussions with branch managers, surfaced in the workshop discussions with their senior bosses. One official pointed out that growth is the most important feature of any industry and recognized that, for the branch managers, there is a conflict between rural development and profits. As argued earlier, such conflict is likely to be a major contributor to role ambiguity, in turn leading to low job satisfaction and motivation and the experience of stress. But this conflict is also clearly felt at the corporate level. As one official present put it "why should I put good staff in such a place with limited business potential?"

As for their interaction with the staff they have posted to rural areas, the senior bank officials were not too happy with the verbatim comments of rural staff criticizing their top-down management approach. As one official put it "We do shout if things go wrong, but we also pat on the back if things move." However, as we have seen, the rural branch managers think more is needed than a pat on the back.

Policy Implications of the Findings

By the conclusion of the second workshop in India, the research team and the senior bankers present had agreed that certain policy and operational areas needed further investigation; some could be addressed by the Commercial Banks themselves, but others would require consideration by the Central Bank (Reserve Bank of India).

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 161

The issues requiring consideration by the Reserve Bank of India include a review of service area allocations, rationalization of the rural branch network, and deregulation of interest rates on loans below Rs2lakhs (£3,000 approx.). It was argued by some Commercial Bank officials that some barriers to providing financial services to the poor lay in the fact that interest rates were not able to cover all the costs of such provision. Others believed that certain service areas, particularly those assigned to Regional Rural Banks (RRBs), were of limited potential and required reconsideration. It was also suggested that the rural branch network could be rationalized, given the potential for mobile units and satellite branches.

The bankers recounted that the major human resources outflow following the implementation of the Voluntary Retirement Scheme (VRS) was largely from the rural branches. This observation raised issues of the adequacy of staffing, further recruitment, training, and placement. Regarding recruitment, "staffing of rural branches through local recruitment" and "direct recruitment versus internal promotions" were the major issues—the local recruitment route had already been tried for Regional Rural Banks (RRBs), where evidence of success in the postreform period was mixed. However, these mixed results may be due to the narrow geographical basis of such recruitment, suggesting that more effective recruitment of bank staff with rural backgrounds might be facilitated by modifying the present all-India nature of Commercial Bank recruitment.

However, as most managers in rural branches of Commercial Banks are likely to continue to be drawn from urban backgrounds, appropriate attitudinal and behavioral changes to postrecruitment orientation and periodic in-service training are likely to offer an important means of bringing about more positive outlooks and good client relations at the rural branch manager level. This is particularly true for new entrants to the banking system at the officer level, given the greater prevalence of negative attitudes among recent recruits.

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 162

The other area of concern at the Commercial Bank level relates to placement and postings. Workshop participants argued that greater priority needs to be accorded to the staffing of rural branches in terms of human resources but that it was difficult to commit good staff to poorer rural areas which had low potential, poor infrastructure, and low credit-absorption capacity.

This conflict between profit and development is a fundamental problem cutting across the banking system. On the one hand, it raises issues regarding the role of the public and private sectors in promoting capital formation in rural areas. On the other hand, it points to the need for banks to develop innovative training interventions to sensitize their staff to the characteristics and needs of the rural poor and to encourage the design and development of suitable products and services. A starting point would be to survey the extent to which innovative financial service provision to the poor is presently being undertaken by banks across India, to assess the impact of these on staff attitudes at various levels, and to consider the incorporation of such experiences in training programs.

Other issues debated were whether rural postings should be compulsory or optional, the frequency of transfers, and tenure at rural branches. Most participants felt that, if rural postings were optional, many rural branches would remain unstaffed. However, it was reported that an experimental optional transfer policy in South India has proved promising; its possible wider applicability in the Commercial Bank sector merits investigation.

Both branch managers and senior staff emphasized that performance appraisal systems continue to focus on deposit mobilization, adding emphasis to recovery performance but giving little recognition to development-related lending. These assessment criteria require revisiting, and appropriate incentives for successful rural lending and poverty alleviation are needed. Incentives suggested by bank managers primarily related to remuneration, facilities, and service-related conditions.

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 163

The present study suggests that existing incentive systems have not encouraged positive attitudes toward financial service provision to the rural poor.

Conclusion

This paper has been concerned with one particular aspect of financial exclusion: the constraining influence of bank staff attitudes on the provision of financial services to the rural poor. Although the focus has been on the attitudes of rural bank managers within three districts of one state in India, it is believed that the approach and findings have relevance to other countries with a banking sector expected to meet the financial service needs of a poor rural clientele.

The profiles of the rural bank managers showed these staff to be largely from a nonrural and nonpoor background. An average age of over 40 years meant that family pressures militating against a rural posting came from two quarters: the pressures of securing good educational facilities for children and the challenge of securing good health facilities for aging parents. In the event, just over one third of the 60 branch managers lived in their village of posting with the remaining managers commuting an average of 25 kilometers on a daily basis. The great majority of the Commercial Bank branch managers were promotees who had risen from the clerical ranks, a number of whom felt unfairly treated in terms of rural postings and promotion compared to directly recruited officer staff. The 60 branch managers have served an average of 20 years with their bank, typically 6 years of which had been in rural areas. The 5 years average of postings in rural areas for the Commercial Bank managers was over twice the stipulated period of 2 years. It is noticeable that the most prosperous and urban of the three districts had higher proportions of rural managers from an urban background, higher proportions of managers who were not from Scheduled Tribe and Scheduled Caste communities, and higher proportions of managers who had undertaken a greater number of training programs.

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 164

A majority of the rural branch managers had overall negative attitudes, with increasing negativity associated with an urban background, posting in one particular district, fewer years of service (the group with less than 15 years of service), and a smaller number of training programs undertaken. Their views toward rural context were also negatively associated with years of service. Although, in general terms, the managers reported finding rural life pleasant, two-thirds did not reside in the village of posting, and most agreed they would prefer an urban posting.

More than half the managers believed that lending to the rural poor carries high risk and nearly all associated the poor with high levels of loan diversion. These views, coupled with the postreform emphasis on profitability, led a number to indicate that they avoid providing credit to the poor. Nevertheless, many thought good client relations were important. A majority believed that the best way to help the poor was by providing concessional credit, even though they recognized that such credit can then be sought by nontarget groups. The majority of managers also believed that the banks should provide financial services to the poor directly, rather than through intermediary organizations, but were almost universally critical of the group-lending approach.

Just over 40% of the managers were unhappy with their present careers; issues relating to work pressure, continuous postings to rural areas, and the perceived better treatment of direct recruits compared to promotees were cited as contributors to this dissatisfaction. Further reasons given for dissatisfaction with future career prospects included the lack of effective incentive systems, the lack of appropriate assessment systems for rural postings, and apprehension concerning downsizing and contraction in the banking sector.

Training has been identified as a key area for improvement. Although the number of training inputs positively impacts the attitudes of bank managers, relatively few of the Commercial Bank managers reported that they had received

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 165

any rural training, and many felt the training they had received was too theoretical and inappropriate for rural postings.

With respect to policy, one conclusion is that changes to postrecruitment orientation and periodic in-service training offer important means to encourage branch staff to hold more positive attitudes toward providing financial services to the rural poor and that this is particularly so for new officer-level entrants into the banking system. In collaboration with the Reserve Bank of India and CARE India, a new applied-research project funded by DFID (Enterprise Development Innovation Fund) will be developing innovative training modules for implementation within two bank training institutes in Madhya Pradesh and evaluating the impact of these training inputs on the attitudes of the trainees.

However, it is also clear that training cannot work in isolation. Other issues raised by the branch managers concerning recruitment, placement, rural tenure, transfer, incentive, and assessment systems need to be addressed. Incentive systems need to take account of the attitudes and perceptions of rural branch managers toward the rural context, toward their clients, toward themselves and their situations, and toward their organizations.

Acknowledgements

We would like to express our gratitude to DFID for funding this research project. We would also like to express our enormous gratitude to the many officials in India who so generously gave their time during the course of the investigation. In particular the authors would like to thank Dr. Bimal Jalan, the Governor of the Reserve Bank of India, for kind permission to associate the RBI with the research project coordinated by the University of Reading and other senior officials who provided valuable inputs. Shri Dilip Choudhary, IAS, and the district collectors of Betul, Datia, and Indore are thanked for participating in the workshops and offering their comments on the aims and findings of the field-level survey. Shri Bhargava,

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 166

General Manager of the Punjab National Bank, Head Office, New Delhi, and Shri I. D. Singh, Zonal Manager of the Punjab National Bank, Bhopal, also provided invaluable support during the field survey and in later workshops. The authors are greatly obliged to Dr. Praggya Das, Assistant Director DESACS, RBI New Delhi, whose support in statistical analysis is acknowledged with grateful appreciation.

Finally, and above all, our thanks are due to the 60 rural branch managers, without whose cooperation this research could not have taken place.

References

Baydas, M. M., Graham, D. H., & Valenzuela, L. (1997). *Commercial Banks in microfinance: New actors in the microfinance world.* Microfinance World, Microenterprise Best Practices, Development Alternatives, Inc.

Everett, J., & Savara, M. (1991). Institutional credit as a strategy toward self-reliance for petty commodity producers in India: A critical evaluation. In H. Afshar (Ed.), *Women, Development and Survival in the Third World* (pp. 239–59). London: Longman Group Ltd.,

Furnham, A. (1997). *The psychology of behavior at work.* Hove, East Sussex: Psychology Press.

Hackman, J., & Oldham, G. (1976). Motivation through the design of work: Test of the theory. *Organizational Behavior and Human Performance, 16,* 250–279.

Harper, M. (2000). *Why are Commercial Banks not entering the micro-finance market?* Paper presented at the Bankers' Institute of Rural Development, Lucknow, Workshop on kick-starting Micro-Finance, a Challenge for the Indian Banks.

Johnson, S., & Rogaly. (1997). *Microfinance and poverty reduction.* Oxford: Oxfam Publications.

Jones, J. H. M. (1994). A changing financial landscape in India: Macro-level and micro-level perspectives. In F.J.A. Bouman, & O. Hospes (Eds.), *Financial Landscapes Reconstructed* (pp. 305–324). Boulder, San Francisco, and Oxford: Westview Press.

Jones, J. H. M., & O. Sakyi-Dawson. (2002). Linking formal and informal financial intermediaries in Ghana: A way to increase women's access to financial services?. In B. Lemire, R. Pearson, and G. Campbell (Eds.), *Women and Credit, Researching the Past and Refiguring the Future* (pp. 271–294). Oxford and New York: Berg.

Jones.Williams.Thorat.qxd 2/24/04 1:06 PM Page 167

Marr, A, (1999). *The poor and their money: What have we learnt?* ODI Poverty Briefing. London: Overseas Development Institute.

McGregor, J. A. (1988). Credit and the rural poor: The changing policy environment in Bangladesh. *Public Administration and Development, 9,* 467–482.

McKee, K. (1989). Microlevel strategies for supporting livelihoods, employment, and income generation of poor women in the third world: The challenge of significance. *World Development, 17*(7), 993–1006.

Robinson, M. S. (2001). *Staff: Preliminary thoughts on how to retain good staff in MFIs.* Moving Microfinance Forward. 5th Annual Conference of the Microfinance Network.

Short, C. (2000). Foreword to Rutherford, S. *The Poor and their Money,* New Delhi: Oxford University Press.

Shylendra, H. S. (1994a). *Lender vitality and lender behavior: A case-study of a Regional Rural Bank in South India,* Working Paper 70. Anand: Institute of Rural Management.

Thorat, Y. S. P. (1999). *Status and prospects of microfinance in India,* Paper presented at the Third Annual Seminar on New Development Finance, Goethe University, Frankfurt.

Vogel, R. C., & D. W. Adams. (2001). *Old and new paradigms in development finance: Should directed credit be resurrected?* Briefing Note for Consulting Assistance on Economic Reform II, Discussion Paper No. 2.

Wright, G. A. A (2000). *Microfinance systems: Designing quality financial services for the poor.* Dhaka: Zed Books.