Cultural Politics of Enterprise Lending and Controls in Closely-held Banks: A Case Study from Sri Lanka

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Abstract

Purpose – The paper focusses on the enterprise lending and control process in the closely-held banks, with special reference to Sri Lanka. It explores how those processes are being influenced by the distinctive cultural and political processes at organsational and society level.

Design/methodology/approach – The study relies on three cases built upon the life experiences of several employees in a closely-held bank, articulating multiple sources of evidence: interviews, observations, documents, archival records, open-ended questionnaires, internet conversations and exchange of e-mails. For the data analysis, it adopts the cultural political economy theory.

Findings – The study's findings reveal how the cultural and political factors, such as egoistic motives and politics, gifts/rewards and manipulative culture, and exploitative and discriminatory politics at organizational and society levels articulate into the enterprise lending and control process ("five" Cs) in closely held banks. The "rational" enterprise lending and control process in this context, merely become a "ceremonial" practice, serving the petty interest of powerful capitalist business owners.

Originality/Value – The paper is the first "qualitative inquiry" on the inter-linkages between enterprise lending and control processes and organizational and society level cultural politics in closely-held banks in Less Developed Countries (LDCs). The previous studies on bank lending and control either used large-scale surveys or otherwise, devoted their interest towards the role and impact of accounting in World Bank and IMF led lending schemes and policies, particularly in LDCs.

Keywords – Enterprise lending and control process, cultural political economy, closely-held banks, five Cs, Less Developed Countries (LDCs), Sri Lanka

Paper type – Research paper

Introduction

Over the past two decades, many critical accounting researchers show their interest to the enterprise lending mechanisms and various accounting controls banks use to assess borrower values (see, for example, James, 1987; Johnson, 1996; Preece and Mullineaux, 1996; Aintablian and Roberts, 2000). They report how banks' assessment of quality of the credit applicant and the project depends on both the results of its screening activities and the impact of its monitoring activities through the duration of the loan (Chu, Mathieu, Robb and Zhang, 2006). A few of them also report on the criteria for such assessments and on the effectiveness, in evaluating the creditworthiness of projects and loan applicants, in particular the application of five Cs (character, capacity, capital, collateral and conditions). Some others, focusing on the economic disparities and social inequality in some countries, argue that access to credit is limited only for the privileged groups in the society (Bank of England, 1999; Cavalluzzo, Cavalluzzo, & Wolken, 2002; Dunn & Cheatham, 1993; Ivy, 1997).

However, most of the these studies either used large-scale surveys (e.g. Green et al., 2007) to understand enterprise lending mechanisms or otherwise, directed their interest toward the role and impact of accounting in World Bank and IMF led lending schemes and policies, particularly in Less developed countries (LDCs) (e.g. Neu et al., 2007). Thus none of them focus on the inter-linkages between enterprise lending and control processes and organizational level cultural politics in closely-held banks in LDCs, such as Sri Lanka. Addressing above gap in the literature, this study which is based on three cases built upon the life experiences of several employees in a closely-held bank in Sri Lanka, investigates two important research questions: (i) what are the enterprise lending and control processes used in the closely-held banks? (ii) how are those processes being influenced by the distinctive cultural and political processes at the organizational and society level? It uses multiple sources of evidence, including personal interviews, observations, documents, archival records, open-ended questionnaires, internet conversations and exchange of e-mails. Conceptually, the analysis of case data draws upon approaches developed within the sociology of accounting and specifically adopts the cultural political economy theory (Althusser, 1969, 1970; Sayer, 2001; Jessop, 2009). The cultural political economy theory explains mutual inter-relatedness and equal importance of both "cultural political" processes and "economic" processes (such as lending and controls) in shaping the "meanings" to economic decisions and practices in organizations and society.

The paper presents in eight sections. The next section seeks to outline the previous research on the inter-linkages between enterprise lending and accounting controls. The follow up section explains the analytical framework of the study: the Cultural Political Economy theory. Then, the remaining sections present the research methodology and methods of the study, an introduction to the case study context, analysis of the case materials, and concluding remarks of the study respectively.

Previous research on enterprise lending and accounting control

The existing accounting literature provides evidence on various tools and techniques banks use to assess a borrower's value (see, for example, James, 1987; Johnson, 1996; Preece and Mullineaux, 1996; Aintablian and Roberts, 2000). They argue that the assessment of the quality of the banks' credit applicant and the project depends on both the results of its screening activities and the impact of its monitoring activities through the duration of the loan (Chu, Mathieu, Robb, & Zhang, 2006). Some mention that as the quality of a bank's screening and monitoring activities increases, small-scale borrowers are affected more than large clients. Chu et al., (2006) claim a bank's lending behaviour reflects its level of commitment towards borrowers, which in turn affects the level of effort it exerts on screening and monitoring the activities of borrowers). Thus because of the capital adequacy requirement, some banks may refrain from engaging in excessive risk-taking behaviour such as financing projects with low equity participation (capital), without securities (collateral) and very doubtful future cash flows (capacity).

According to Hoque (2003) the industrial credit providers in developing countries have, since the late 1970s, been experiencing serious financial distress due to persistent industrial loan default. They found that credit spread, which is used as a proxy of borrowing costs, is statistically significantly determined by enterprise's size, collateral and internal credit rating of a borrower, whereas enterprise's size evidenced the highest explanatory power. Many researchers argue that government actions should stimulate more inclusive bank finance of creditworthy enterprises (Green, Kimuyu, Manos & Murinde, 2007; Kundid & Ercegovac, 2011; Liou, 1999). However, many researchers are of the view that the unavailability of financial capital is the main reason for most enterprise failures (Bank of England, 1999; Cavalluzzo, Cavalluzzo, & Wolken, 2002; Dunn & Cheatham, 1993; Ivy, 1997).

Some research has been done in defining the precise criteria for such assessments and in determining how effective is application of the five Cs in evaluating creditworthiness of projects and loan applicants (Green et al., 2007). On the basis of their survey on 2000 micro- and small-scale enterprises (MSEs) in Kenya, Green et al. (2007) suggest that major determinants of the success rate of loan applications is a mixture of conventional and heterodox variables. In particular, measures of the tangibility of the owner's assets (capital), and the owner's education and training (capacity) have a significant positive impact on the probability of borrowing and of the gearing level. These five Cs factors cover assessments of the entrepreneur as well as the environment, providing thorough affirmation of every concern for creditworthiness. This method of evaluating a borrower incorporates both qualitative and quantitative measures. The first factor is character, which refers to a borrower's reputation. Capacity measures a borrower's skills and ability to repay a loan by comparing income against recurring debts. The lender considers any capital the borrower puts toward a potential investment, because a large contribution by the borrower lessens the chance of default. Collateral, such as property or large assets, helps to secure the loan. Finally, the conditions of the loan, such as the interest rate and economic conditions will influence the lender's desire to finance the borrower. If needed, in support thereof, the contention that a loan facility justified by terms of the other four Cs could be considered with "concessionary" regard for this fifth C (refer Kidwell, Brimble, Basu, Lenten, & Thomson 2010), though where the line should be drawn needs to be a decision applying differently considering the size of loan facility, affordability of risk per non-performing loans (NPL) and other risk determining ratios for the institution and necessarily by the institution.

Noticeably, the majority of these lending and control research adopt positivist approaches such as large scale surveys to understand the credit environment in banks, and hardly explain the qualitative aspects behind bank lending decisions (exceptions include Bank of England, 1999; Cavalluzzo, Cavalluzzo, & Wolken, 2002; Dunn & Cheatham, 1993; Ivy, 1997; Neu et al., 2009). The latter group focuses on the fairness in accessing credit, and in particular they argue that in some countries such as LDCs the access to credit is limited to only for the privileged groups in the society, i.e. powerful upper class. For instance, the Governor of the Bank of England confirms that access to start-up or early-stage finance for disadvantaged groups in poor-neighborhoods is an ongoing problem (1999). The accounting and its associated actors are playing significant roles in this credit environment and contribute to the "over-organisation" of the banking sector (Neu et al., 2009). Thus Neu et al. (2009) insist that becoming something new and simply taken-for-granted always exists within both international lending organizations, e.g. World Bank, IMF and the professional discipline of accounting. For example, credit officers quickly rely on financial forecasts prepared by professionally qualified accountants, if they want to facilitate the credit applicant. These studies also acknowledge the presence of politics and power within credit environments, in particular between the World Bank and recipient countries (e.g. Cavalluzzo, Cavalluzzo, & Wolken, 2002; Neu et al., 2009). However, none of them present a "qualitative inquiry" on the inter-linkages between enterprise lending and control processes and organizational level cultural politics in closely-held banks. This study that built upon the life experiences of several employees in a closely-held bank in Sri Lanka attempts to fill this void. It examines: (i) what are the enterprise lending and control processes used in the closely-held banks? (ii) how are those processes being influenced by the distinctive cultural and political processes at the organizational and society level? Next section presents the theoretical framework of the study: cultural political economy theory.

Cultural political economy theory

Cultural political economic researchers study the role of economic processes in shaping the society and history (e.g. Jessop, 2009; Sum, 2006). Rejecting economic determinism, they move beyond the work of Marx and his theorization of class processes or relationships in traditional political economy theory (Marx, 1859). This post-structuralist and post-Marxist cultural political economy approach still adapts the traditional class analysis and economic processes, but in order to understand wider issues in organisations, society and history, it also looks at the context of political, cultural, and environmental processes (Jessop, 2009). The post-structuralist cultural political economy approach thus offers an alternative to the neo-classical economic theory as well as to the traditional determinist notions of Marxian political economic analysis of the society.

The traditional political economy approach specifically focuses on the authority and control patterns, management procedures, and external and internal determinants of institutional changes in organisations and society (Harvey, 1982; Arndt, 1983). Its main interests rely on the interplay of power, the goals of power wielders, and the productive economic exchange systems within the society (Buchanan, 1964). This strand of thinking is grounded in the contemporary market-based socio-political systems that the world has embrace and often use for neo-classical theory building (Arndt, 1983). The neo-classical economists who use a functionalist standpoint believe that the political economy is a phenomenon built upon the exchange behaviour in a marketplace between firms and interest groups for a preferred outcome.

In contrast, the cultural political economy approach to organisations and society assumes that both the cultural political processes and the economic processes are equally important in shaping the economic decisions (Jessop, 2009; Sum, 2006). More importantly, this post-structuralist approach creates a cultural and political turn in the traditional materialist and neo-classical theory of society. This approach is also matched with the scholarly writings of Althusser (1969, 1970) on formation of organisations and society and in particular with writings on mutual interrelatedness of the economy, politics and ideology. Moreover, the cultural political economy approach stresses the importance of the constitutive role of cultural-symbolic forms and discursive orders that give the sense and meaning to the material practices and related economic decisions of the people in organisations and society. It also emphasises the life world aspects of economic processes, such as identities, discourses, work cultures, and the social and cultural embeddings of economic activity, reversing the pattern of emphasis of conventional political economy with its concern for systems (Sayer, 2001).

A handful of accounting researchers make some efforts to understand the influence of these cultural and political processes on the accounting and management control systems in organisations and society. For example, drawing from cultural political economic theory, Wickramasinghe and Hopper (2005) shows how successive attempts to impose conventional management accounting controls on a Less Developed Country (LDC) organization failed, due to the local cultural political factors such as workers' resistance. Their paper further elaborates how the management accounting and capitalist mode of production in modern industrial culture took an unprecedented turn when challenged by traditional rural cultures, based on Kingship obligations. Jayasinghe and Wickramasinghe (2007) reveals how the accounting calculative practices in a traditional society reassembled into an articulated mode of production shaped by some heterogeneous cultural and political characteristics, such as patronage relations, village cultures, and local capital and political power, instead of rational economic processes and ideologies. Using a case study from Bangladesh, Uddin (2009) explores how the organisational controls of a listed company have been biased to serve the dominant owners or family of the company rather than the general shareholders. More recently, Tsamenyi and co-authors (2011) reports on how rational accounting and control systems in an LDC mining company have been reshaped by different regimes of control, such as physical controls and ethnic divisions and state sponsored manipulated politics. Following this tradition, this study adopts the cultural political economy theory to examine its main research question: how are enterprise lending and control processes being influenced by the distinctive cultural and politics at the organizational and society level.

Research methods

This study follows the critical accounting tradition. According to the prominent scholars, the interpretive school of thought paved the way for critical accounting theory (Power, 2003; Sikka, 2001; Tinker, 1980). Such scholars argue that the aim of research should not be limited to uncovering meanings but also focused on finding reasons for change (Laughlin, 1995), e.g. how and why closely held banks' enterprise lending and control processes fail?. The critical accounting researchers use sociological and political theories such as cultural political economy theory to uncover meanings. They prefer case study as their data collection method. In the case study method, the soundness of researchers' arguments are refined and ensured by investigating the cases in considerable depth (Hammersley & Gomm, 2000) rather than the number of cases studied and/or amount of data collected on each case. Gluckman insists that, "clearly one good case study can illuminate the working of a social system in a way that a series of morphological statements cannot achieve" (Gluckman, 1961, p. 9 cited in Mitchell, 2000, p. 1). Hooper (2001) argues; "the purpose of a case study may be to develop a theory or test a theory, or use a theory to critically analyze phenomena" (p. 6). Accordingly, this study uses the case study approach to critically analyze a closely held bank (named as BSL)'s enterprise lending and control processes by using a theory. The multiple-case method, e.g. three cases selected from the BSL bank is employed to enhance validity and allows for more cogent theorization of findings. The strength of this multiple case study is that most of the evidence was supplied by eyewitnesses, and post-event information was accessible for validation tests to ensure the quality of the research.

Due to the restriction on access to data in banks and the need for long-term data analysis, it carries out a retrospective study of life experiences of several relevant employees in the closely held bank chosen for the study, using multiple sources of evidence including observations, personal interviews (with open-ended questionnaires – Appendix I and II), documents, archival records, internet chats and exchange of e-mails. It rely mainly on the reconstruction of direct observations and events "connecting with personal experiences" as the primary sources of data collection (refer Wolcott, 1994, p. 44). A set of guidelines provided by Crawford and colleagues (Crawford et al., 1992, cited in Stephenson & Papadopoulos, 2006, p. 58) is followed to document the life experiences of the participants. The case studies used in the paper are constructed and reported as stories. According to Polkinghorne (1987, cited in Czarniawska, 2004) plot is the basic means that brings all the events and incidents into one meaningful whole. In this staging process, first, main characters are introduced and then the story is presented following a sequential and/or a logical order, whenever appropriate. Next, these stories are further investigated in considerable depth by cross-questioning the research participants and examining post-event developments. Therefore, the data collection, analyses and interpretations are done through continuous interaction with the research participants. Thus it is a reiterative process with a focus on story building, in-depth analysis and interpretation. It is argued that gaining traditional "thick descriptions" (Geertz, 1973; Sanday, 1979; Arnould & Wallendorf, 1994, cited in Woodside & Wilson, 2003, p. 497) alone are not enough to ensure the validity and reliability of case study research, because it may be limited to different levels of depth and detail (Woodside & Wilson, 2003). On the other hand, whether the description is "thick" or "thin", if it provides adequate evidence to the claim, the description is considered as dependable (Bailey, 2007). Therefore, the descriptions provided in this study were supported by other validation techniques and collaborative evidence such as financial accounts and comments of fellow bankers, and finally through inter-rater reliability checks with peer scholars (refer Schutt, 2001).

Participants and selection of cases

The 20 participants of this research were senior bank officers of BSL having more than 20 years' banking experience. They all were Sri Lankan nationals, ethnic Sinhalese males in their middle age. They were invited to participate entirely on a voluntary basis after it was explained that the research findings would be helpful: a) to expose the weaknesses of the existing finance capital mobility system; b) to provide an insight to policy formulators in promoting potential entrepreneurs; and c) to accelerate the economic development of Sri Lanka, in the final analysis. Following Silverman (2000), the main cases under review; promoting car-manufacturing and teak plantation in Sri Lanka, were selected purposely after careful examination of several cases provided by the participants, on the grounds of the unique nature of decision-making processes adopted. The cases considered were about typical credit applications and decision-making processes practiced in BSL; a closely-held commercial bank in Sri Lanka. The number of cases studied was determined using the five criteria: credit decision-making processes followed; size of the credit applicant; outcome of credit decisions made; hierarchical level of the decision-makers involved; and the type of the credit applicant. All credit applications considered for this inquiry are typical in nature in the Sri Lankan context as explained below and therefore represent the general credit culture of closely-held commercial banks in Sri Lanka.

Representation of the cases

Twelve common characteristics of credit applicants were tested to assess the representativeness of the credit applicants studied in this research, as tabulated in Appendix III. All the bank officers contacted for this assessment have held branch manager positions in various parts of the country. They were of the view that ordinary credit applicants face problems with collateral, rigid credit evaluation rules and lack of support from accountants with regard to the accessibility, affordability and availability of credit. Also they agree that large credit applicants are beyond their authority and are mostly accommodated with extra effort by the senior officers. Customer get-togethers are common in all Sri Lankan banks and all respondents agree that only large and medium sized clients are invited to such functions. Representation is ranked as high, average and low compared with other credit applicants the respondents had been aware of for the last 10–20 years. Ranking high and average on most characteristics, the cases selected demonstrably represent the enterprise lending in Sri Lanka in general.

Representation of the Bank

Sri Lanka has a total of 22 commercial banks equally distributed between domestic and foreign (11 banks each) and, out of 11 domestic banks, nine private domestic banks, including the BSL Bank, share 41 per cent of all banking business while the two state-owned banks share 57.5 per cent in terms of branch distribution and approximately 41.1 per cent in deposits, loans, assets and turnover in 2004 (The Central Bank of Sri Lanka, 2008).

A set of common characteristics was tested to establish the representativeness of the BSL Bank compared to other domestic private banks. In Appendix IV, fourteen such characteristics were tested with interviewees to assess the level of representativeness of the BSL Bank in the Sri Lankan private banking sector. The representation level is indicated by Yes/High, Average/Likely/Medium and No/Low. The banks numbered as 1–5 represent listed privately owned commercial banks, number 5 being the BSL Bank and number 6 comprises all other small/unlisted/private commercial banks.

In addition to the above characteristics, they also share similar features such as: a management hierarchy comprising 15 levels (level one being the lowest grade, for drivers and peons and level 15 being the general manager/chief executive officer); very similar levels of decision-making authority assigned to each grade, similar salaries and perks pertaining to each grade, same levels of capital adequacy and liquidity and similar physical appearance of head offices and branch offices. Also, according to interviewees, though the chairpersons of other banks (private or state owned) do not exercise executive powers; the directions are commonly given by chairpersons to management for certain cases where they have special interests.

Given the evidence for commonalities and the patterns observed in the three cases and, based on the 12 and 14 characteristics tested for representation of the cases and the BSL Bank respectively, the researchers argue that certain relationships are common in the closely-held banks in Sri Lanka. Therefore, this research demonstrates the nature of the credit culture of the BSL Bank, which may be taken as a representative bank within the closely-held banks in Sri Lanka. Hence, though the original aim of the research was not really to generalize the findings to claim a credit culture applicable to the entire banking sector in Sri Lanka, this representativeness encouraged the researcher to pose a theory that the credit culture of the BSL Bank may be replicated in other closely-held banks in Sri Lanka.

Data analysis

For the purpose of analysis, first, the narratives were constructed from the multi-faced sources of evidence. As Garcia-Lorenzo (2004, p. 45) said: "the narratives arise in the space between our experience of the world and our efforts to put that experience into language and, as such, are crucial for both the processes of sense-making and the transmission of that experience". The study adopts the cultural political economy theory to its data analysis. It was believed that the narratives would bring out the meanings (and reasons) for interviewees' responses and show up the embedded cultural political factors, e.g. reward culture behind enterprise lending and control processes (five 5Cs). An attempt was made to allow broader patterns or themes to emerge from participant responses. The themes identified from the empirical data were then examined by subsequent collection of multi-faceted evidence and through the lens of the cultural political economy theory. The next section of the paper reflects the privately owned banking sector in Sri Lanka.

The privately owned banking sector in Sri Lanka

The banking facilities in developing countries such as Sri Lanka were originally established to fulfill the financial and credit needs of planters, mine owners and businessmen in those countries (Wickrama & Mulford, 1996). The first bank in Ceylon was established in 1841 (Andree, 1863), under the colonial rule of the British. The Central Bank of Sri Lanka (CBSL) as the supreme controller conform Sri Lankan banking practices to international standards in their regulatory framework. The banking regulatory framework consists of the Banking Act No. 30 of 1988 and its amendments, directives, circulars and Guidelines issued by the Department of Bank Supervision of CBSL based on the standards set by the Basel Agreement to maintain healthy balance sheets for banks. The Department of Bank Supervision of the Central Bank of Sri Lanka monitors, on a regular basis, the statutory requirements such as: ownership structure; capital adequacy; single borrower exposure; interest income recognition; provisioning for bad loans; corporate governance; and timely publication of financial results.

Commercial enterprise lending mechanisms and controls

A credit policy manual (CPM) at each bank governs all lending related activities of respective institutions, ensuring guidelines for compliance with regulatory requirements as well as its own profitability. The circulars containing specific instructions in respect of concessionary credit schemes and suchlike are issued as necessary and usually contain requirements additional to those included in the CPM that guides staff from project appraisals to monitoring and recoveries, also detailing processes for ‘write-offs’ in eventualities. They cover such comprehensive approaches that even checklists and templates for efficient credit administration have been included therein.

In respect of qualitative and quantitative estimation of the credit component of a project, Credit Scoring models have been stipulated for lending institutions. The purpose thereby is to ascertain and minimise the risk of facilities extended. The qualitative aspects mainly evaluate operating experience, management expertise and asset quality while quantitative aspects are based on accounting ratios such as leverage, profitability and liquidity ratios. On such comprehensive review of borrower capacity and project feasibility, the Contract for the facility is executed, being a prerequisite to extension of credit.

Politicised business culture of privately owned banks, with special attention to BSL

Despite the availability of these regulatory frameworks and rational lending mechanisms and control systems, arbitrary credit decision making is a very common feature in Sri Lankan private banks. The private ownership and the presence of family members and their allies in the decision making positions (e.g. director boards) make that manipulation relatively easy. For example, the BSL Bank had obtained special approval from the Central Bank Sri Lanka for direct holding of 18 per cent of its equity by the BSL Group. But, the BSL Bank had more than 50 per cent of its ownership with the chairman, his wife and a few companies of the group, through indirect holdings and employee share ownership schemes, which were allowed by the Banking Act. This loophole is that special permission is granted for its employees to purchase shares of a bank by creating trusts in the name of employees, called the "Employee Share Ownership Plan" (ESOP) but the ownership is limited to five per cent. Under normal circumstances, banks cannot lend money to purchase their own shares but ESOPs are exempt from such restrictions. Thus, the BSL Bank created six ESOP trusts and lent money at a concessionary rate of interest to purchase its own shares, each trust acquiring 4.99 per cent of ownership, to a total of 29.9 per cent of ownership. The present owners did not inject a single cent as new capital but it was a "smart" way of using others' money to acquire the controlling power of an institution. The directors of these ESOPs are their most loyal employees (such as relatives and friends) and in this way the chairman feel more powerful because he looks after not only himself but his cronies as well. Most private banks are owned by groups of companies acting in concert but camouflaged under the veil of incorporation using their subsidiaries to own 4.9% of a particular bank.

The bank owners, other wealthy business owners and highly educated professionals in the country maintain cartels using "social networks" such as Old Boys Associations, Rotary Club and Lions Club. The members of these social networks are mainly belonged to the English speaking upper social class (so called "elites") of the society. One rarely sees advertisements to recruit employees for private banks in Sri Lanka. Applications for new recruitments are forwarded through powerful shareholders and the senior management. In Sri Lanka, though bank officers serve as directors on the boards of their highly indebted clients, to look after the banks' interest, there is no compelling evidence that those clients reward them with another salary. They do, however, enjoy various other benefits such as free holidays and large hampers in the festival seasons. It is also common to see that credit decisions by various loan officers are not consistent and culture of manipulation is evident (refer Wickramasinghe and Hopper, 2005, Jayasinghe and Wickramasinghe, 2007 and 2011).

The unique political economy at BSL

BSL is a private sector commercial bank that needs to comply with all statutory as well as own internal regulations. The chairman of BSL had owned a large group of companies and well known as a successful businessman in the country. He had developed his own autonomy in the management of BSL by appointing its board of directors from his other affiliated business entities. Thus he had taken a number of his other company heads into the BSL Bank Board; simultaneously, all of them were acting the same manner in their respective Boards. The result was obvious in that the chairman exercised overwhelming power in decision making in the Bank. A scrutiny of his power was occasioned in 1996 when he, due to misappropriations in foreign exchange transactions, had fired BSL CEO and vested executive powers in the Senior-most Deputy General Manager, who in fact was exercising his duties under strict instructions from the Chairman.

The BSL chairman was also recognized as a business magnate at the national level, respected by the government and a greater part of the population. Because of this background, he was benefited by the change of the Government in 2001, as Sri Lanka adopted FDI (Foreign Direct Investment) promotion as a main economic strategy, expecting to generate more employment opportunities in the country. With the ambition of utilising supreme strengths in investment management, the Bureau of Investments in Sri Lanka (BOI) was split into five units on a regional basis, each arranged to be self-funded under the patronage of respective chiefs of the Regional Economic Development Agencies (REDA). The Western and Central REDA were entrusted to the BSL chairman. Thus his project funding mechanism had the BSL Bank consequentially tied up with his obligations. Therefore the brunt of the BSL chairman's REDA-investment efforts fell on the BSL Bank. The following three loan approval cases (Lan Car Ltd, Teak Ltd and small enterprise loans) used in the case analysis of this paper was related with the REDA-investments by the BSL bank.

The BSL bank's loan approval cases

These case studies of two large and medium scale commercial facilities and one small trader development facility from BSL, illustrate the real life bank lending scenarios and in particular the factors catalyzing un-creditworthy project financing ("Five Cs" of credit) as a cross section of attitudes and behavior pertaining to credit operations in Sri Lanka (Appendix V – the factors catalyzing un-creditworthy project financing). The section answers to the first research question of the paper: what are the enterprise lending and control processes used in closely-held banks?

Case 1 – Lan Car Ltd, a large scale commercial facility

The owner of Lan Car Ltd had manufactured a small car and a van and was embarking on marketing them as utility family and office vehicles. Though he had not yet sold any at that stage, he was very optimistic that he could easily build up an industry, owing to the lower cost of his products in contrast to the prevailing vehicle market. These observations were revealed by some bank officers and other company heads who knew the circumstances from the early days. Accordingly, the owner of Lan Car Ltd was clearly optimistic despite his being not quite aware of statutory positions with regard to other formalities that he had to face in furthering his objective of catering to potential customers and a lot more about establishment of a facility as big as things would demand.

The Lan Car Ltd owner had already invested substantially in the project and had pledged all assets for funding up to the production of the first couple of vehicles. The capital he infused, too, was only in the work-in-progress and a relatively insignificant stock of automobile parts. The whole directorate of the Lan Car had additionally pledged personal guarantees to other banks that they were unable to provide any security, since the factory premises could provide neither value nor legality for a subject facility, the law restricting the re-lease of leased premises as collateral. There was in fact almost no collateral that could support the justifiability of recovery through assets, in case the subject facility failed in performance (Appendix V - the factors catalyzing un-creditworthy project financing). However, the chairman of BSL bank, ignoring all creditworthy test results (five Cs), was swept away by his conviction that the foreign exchange saving in substituting for at least a part of utility car imports would justify and perhaps provide enough in significant gains to set the shortcoming aside. It was not really that none of other bank officials who knew of the necessity to evaluate a project of this nature; but BSL chairman had been sarcastic about those officials' 'commercial (banking)' attitude in the face of a 'development' endeavor. This had been reflected in his condescending comments made in front of them, such as, *"You don't know this Development Banking where you need to 'guide' the entrepreneur through technicalities and even 'provide' them other services"*. Thus he was not interested to consult his credit experts in the bank and not faithful or confidant in any of them. He was severely critical of his bank officials who had initially rejected the Car Ltd.'s proposal, even though their decisions had been fully justified by the BSC's credit appraisal system. According to a bank official, once, the chairman had angrily said: *"I think we need a good accountant, not a banker, to manage these facilities"*.

The BSL chairman had such "passion" for the Lan Car Ltd project and took-over all the encumbrances, statutory and operative, arising at every stage of the product being taken to the market. He had totally disregarded of existing credit evaluation methodologies (Appendix V) obviously to show his ego that he was willing to spend lavishly to fulfill the desires of the needy and greedy alike so long as the clients wished dependence of him. No credence could be given to his conviction when he involved himself in credit decisions, leave alone in areas of borrower integrity or repayment capacity. Thus the first of the "five Cs", character or the borrower's reputation, was thrown to the wind within hours of the first meeting with Lan Car Ltd owner. Through his powers as head of Western REDA, he had agreed to provide factory premises and LKR45 million from the BSL Bank. Moreover, a team consisting of Bank and REDA officials had been ordered to visit and a verbal report; not on the borrower or the project but on the property that was to be offered – had been presented in forum.

Case 2 Teak Ltd., a medium scale commercial facility

The owner of Teak Ltd ventured into agriculture business in the late 1990s. He obtained 1000 acres of crown land under the Mahaweli project and had a plantation of cashew and teak for six years. He was desperate for financial assistance for a sophisticated irrigation system and to hire Israeli experts. Teak Ltd owner's loan application had been dragging for nearly two years. The BSL Bank lawyers argued that mortgaging crown land would not provide adequate collateral (Appendix V – the factors catalyzing un-creditworthy project financing). The head of the development financing department, without adequate security, was not prepared to take up the risk though refinancing arrangements were in place under the Asian Development Bank (ADB) funded scheme for perennial crop development project. Thus the credit was initially declined following the application of rigid normal credit evaluation rules. The finance director of Teak Ltd was highly critical of BSL's formal banking practices and blamed the BSL staff for very slow processing and delaying of loan procedures.

However, the owner of Teak Ltd was known to the BSL chairman for several years because of his previous business accounts at BSL and took the application directly to him. The Teak Ltd. owner who came up with his pet agro-project and with the assurance of earning foreign exchange for the country was able to convince the BSL chairman that he could facilitate a lucrative export oriented business in Sri Lanka. The BSL chairman while criticizing the behavior of his own credit officers and also ignoring all the negative creditworthiness reports (Appendix V) had immediately decided to grant LKR25 million to Teak Ltd. This soft decision was made under the enormous power entrusted to him by the BSL's weak organizational structure, exhibiting irrational credit management in ignoring the most critical two credit creditworthiness factors; capital and collateral (Appendix V).

The BSL Bank was a participating credit institution (PCI) of the ADB funded perennial crop development project but middle level managers, guided by rigid security oriented accounting controls and credit evaluation, did not accommodate much needed funds for this project to take off. However, BSL chairman was well convinced by the pro-forma financial statements and the "manipulated" cash flow projections certified by the Teak Ltd. accountants, hence the most important creditworthiness factor of the five Cs; the capacity to repay was ensured (Appendix V). The BSL chairman hadn't shown any faith on the formal credit evaluation system, especially for new ventures, and also used his "position" to disregard and override all prevailing accounting controls. Even though, the Teak Ltd owner's knowledge of plantation was less apparent, he was an educated and well-connected gentleman who had successfully built up several businesses in the Information Technology (IT) field in the country. So, the BSL chairman treated him as a sufficiently trustworthy person to repay the loan or generate a return on funds invested in his businesses. As in the case of Teak Ltd owner, no documentary proof was sought to back these informal credit evaluations done by the chairman himself, though it would have been the usual practice for ordinary credit officers to do this.

Case 3 – Small trader development facility

Discussion with the research participants revealed that the BSL bank branch managers handle these small enterprise credit applications more positively, financing initial capital investment requirements, as their performances are evaluated on the basis of business development. The BSL branch managers provide accounting facilities, to prove the capacity to repay, to convince the higher authorities if credit requirements are beyond the authority limit of the branch. The "small enterprise loan" culture in Sri Lanka is such that credit customers used to please bank officers in various forms of gratification including hampers at Christmas or New Year time and other personal services. Gradually, the small client provision of such personal services to the bank officers came to be regarded as dues and their inability to cope with the requests made by down-the-line staff (in addition to the managers) often causes irritation amongst staff circles, damaging the relationship that is an important element in the assessment of applicant's character (Appendix V – the factors catalyzing un-creditworthy project financing).

The threats to these credit applicants include: new entrants who were friends of the top management, harassment by credit officers, lack of collateral, small size, personal grudges and mismanagement, such as overtrading and diverting funds, creating liquidity problems. They faced financial barriers to business development and got into the bad books as their loans were not serviced. The branch managers, who nurtured these businesses at the beginning, ignoring one of the five Cs; character in assessing the creditworthiness of borrowers in many cases, eventually were promoted and transferred (Appendix V). New decision-makers were quick to classify loans with poor recovery records as non-performing and transfer them to the recoveries department, as a way of boosting their own performance by pointing the finger at the previous manager. Initially, new customers (sometimes already in the bad books in competitive banks) were accommodated positively. Especially when new branches were opened, the branch managers were given extra authority to attract customers. Bank facilities were provided outside the normal credit rules such as character, capital and collateral but emphasizing capacity and conditions so that recovery is ensured (refer Appendix III for more information). However, once these advances became non-performing, they were transferred to the recoveries department and all the bank facilities were withdrawn and the clients requested to settle existing outstanding amounts immediately, to be considered for further facilities.

The business development drive of new branches helps new credit applicants, placing less emphasis on credit worthiness factors such as character, capital and collateral (Appendix V). Performance of recovery officers was measured by the reduction shown in the bad loans they handled. They could transfer restructured bad loans back to branches as performing loans and that process enhanced their performance, for which they were rewarded. But sometimes recovery officers did not have the necessary authority to approve such new credit facilities. On the other hand, orthodox bank officers strictly applied the rules and tried to impress the management about their "good work". In these circumstances, the credit applicants could not afford the services of professional accountants to project their prospects convincingly. Most such small credit applicants come for loans as the last resort, after investing whatever money they had in the business. In other words, these applicants generally have their capital tied up with the inventory, equipment and so forth (Appendix V). As a result, they offer other tangible assets such as houses and other real estate as collateral. It is common that these small businesspeople often do not use the loan for the intended purpose. The local economic climate and conditions are assessed according to the industry; however, if securities are "adequate" (sometimes by overvaluation) the loans were granted in most cases.

These situations ultimately result in those clients losing credibility and business integrity, and becoming unable to pursue tender bids without performance bonds and bank guarantees. Also it was evident that credit officers lose jobs for granting credit facilities without authority or proper evaluation. On the other hand, certain credit clients, who are unable to convince the higher decision-makers with sophisticated strategic plans backed by professionally prepared financial statements and cash-flow forecasts, quickly find themselves in a difficult situation, struggling to save their houses, which were mortgaged to the Bank as collateral (Appendix V). When loans were classified as non-performing, the recovery processes were intensified by assigning the loan accounts to recoveries and legal departments. Such customers normally searched for avenues to approach the BSL chairman, as advised by people aware of the chairman's approach, as chairman was using his ego promotion TV shows to boast of helping small businesspeople. But that assess was usually denied to them as they did not have the necessary socio-economic power and business network to reach the BSL chairman or other senior BSL bank officials. The next section presents a critical analysis of the cultural political factors behind these lending and control processes, presented in the above three cases.

The analysis: cultural politics of enterprise lending and controls in the BSL bank

This section focuses on how the enterprise lending and control processes (five Cs) being influenced by the distinctive cultural politics at the organizational and society level; the second research question of the study. Its empirical analysis of three BSL bank cases reflects the mutually inter-relatedness and also equal importance of both the cultural political processes and the economic processes in shaping the meanings to their organizational practices and related economic decisions. The analysis of case data specifically draws upon the cultural political economy theory (Althusser, 1969, 1970; Sayer, 2001; Jessop, 2009).

Chairman's egoistic motives and politicization of lending and controls in BSL

It was quite evident that BSL chairman use his socio-economic power over the rational lending and controls when approving the BSC enterprise loans to their clients. In particular, his egoistic motive to create a public image as a "business magnate" at the national level and his personal interest of favoring the clients belonged to upper level - social networks and cartels had created seriously negative impact on BSL's enterprise lending system. For example, though the BSL survived the credit losses in long term, it faced a "run" in December 2008 due to a collapse of a sister company in the group. The Central Bank of Sri Lanka (CBSL) had to intervene and changed the management by appointing a new Chairperson and a board of directors.

The study evidence presented above shows that the chairman directly involved with the BSL credit decisions and overlooked some critical accounting information and records of his favorite clients, e.g. negative cash flows presented by Lan Car Ltd., even though he was knowing those decisions could negatively affect BSL finances. As quoted by a BSL official: *"In Lan Car Ltd.'s credit application, the cash flow forecast submitted was readily accepted as realistic (even though it consisted of irregular patterns of cash flows) as they had been* *signed by professional accountants and credit facilities were granted over the table by the chairman"*. The BSL chairman was also critical of his own staffs that follow the strict lending and control procedures of the bank. According to one of our interviewees, the chairman once told: *"This is the whole problem with our bankers. They are guided by some stupid rules called banking practices and ruin the life of people like you (referred to Lan Car Ltd. owner)"*. However, the chairman had recruited a strong group of loyal staff, mainly from his family and social networks supporting his views and managed to build a patronage culture within the BSL bank. This has been evidenced from the following statement by one of the senior bank officials at BSL whom looked like his close ally: *"It was not that the Chairperson totally disregards caution, reason, peril; nor that he was acting on his dreams and fantasies, and made these unsystematic decisions. In fact, bypassing basic accounting and economic rationales, he calculated value to the abandoned factory premises and took the total picture into account, to approve the loan. It was informal, because normal systematic accounting and banking could not accommodate this loan."* As revealed by the interviewees, in addition to the initial loan approval, the BSL chairman had granted in further funds when the Lan Car Ltd.'s already approved loan facility was non-performing. Thus, when the alleged demand for vehicles of the Lan Car Ltd was found to be non-existent, the chairman was almost forcing the other companies under his purview to purchase products from that ill-evaluated project. It was more ironical that the BSL Bank too was to bear a significant "burden" thereof after having pumped in excessive facilities.

The chairman's personal influence and politics also evidenced in the Teak Ltd case, as he had taken over the BSL credit controls into his own hands and excused the client from collateral and capacity requirements. Further exploration of the Teak Ltd. case reflected that the BSL chairman had instructed his credit control department staff to reshape the Teak Ltd.'s accounts to approve their loan application. As heard by a bank official of BSL, the Teak Plc. owner had acknowledged the weaknesses in his cash flow projects, by saying: *". . . our cash flow is always positive but not adequate to service the loans because of irregular patterns of cash flows like any other agri-based businesses"*. However, BSL chairman had ignored all this risky accounting information and given his formal approval to the loan, based on his personal contacts with the Teak Plc. owner. In this politicized credit approval process, first, the Teak Ltd.'s "freak" annual accounts were handed over to the BSL's Corporate Banking division, and then the credit officer of Corporate Banking division was instructed to prepare a "revised proposal" to attach with the Teak Ltd. loan application. But the worse thing was that the chairman had not only approved this resubmitted application, but also extended a further facility to smoothen the Teak Ltd.'s weak cash flows. There was some later evidence that just four years after this decision, the BSL bank had to provide/transfer Teak Ltd.'s loan account for the bad debts in BSL account portfolio, since the Teak Ltd could not service the loan according to the agreed conditions.

Rewards/gifts and manipulative culture over enterprise lending and controls in BSL

As already discussed before, in traditional Sri Lankan culture, the "gifts" and "hampers" are differ from the Western notion of "corruption" because they are not offered in secret ways

(Alatas, 1986, cited in Jayawickrama, 2001). There is a practice that bank managers, in return for their customer services, openly accept these "gifts" and “hampers” from their clients, without any hesitation. However, the results revealed that this cultural political practice of the society had been articulated into the BSL bank’s lending and control process, and thus become a “routine” and “moral order”, when offering loans to the small enterprise clients. Thus the small enterprise clients had treated the normal service rendered by the bank officials, as “special favors” extended to them and used to offer some kind of “gifts” or hampers” as complements. At the same time, some small enterprise clients had used this as a “manipulative tactic” to get loan approvals from the credit officers at BSL bank.

The BSL bank followed highly “rigid” accounting controls and bank procedures for small enterprise clients and so many of those applications often ended up with declined credits. But, according to the study observations and findings, under the circumstances of above “gift” and “rewards” culture, some middle and lower level bank managers at the BSL had approved technically “unqualified” and “risky” loan applications, and also in some cases, by overriding five Cs factors, gone beyond their credit approval authority limits. Moreover, in exchange of “gifts” and “rewards”, some BSL managers had helped the small enterprise clients to prepare their “accounts files” to suit with the loan application requirements. A middle level manager at the BSL stated: *"We even helped to prepare financial statements and cash-flow statements for them as these small clients cannot afford professional accountants”*.

On the other hand, some BSL managers had granted a large sum of “unhealthy” (and “high risk”) loans to increase their departmental sales. Though there was no solid evidence available of major personal gratification being offered, the most probable reason for this type of informal decision could be the expectation of the middle management level bank officers seeking to impress the top management on their performance (e.g. sales increase in the branch) would swing more towards formal rewards, bonuses or speedy progression in their jobs. According to the evidence, the recoveries manager at BSL used to extend those kinds of facilities to customers beyond his authority level and also earned commendations and career promotions for managing bad loans well. A bank manager at BSL remarked: *“If the client is known to the branch manager or any powerful officer in the bank, he is safe. He can definitely get the loan!”* He further elaborated that *“social networks are so powerful in Sri Lanka that…sometimes such desperate clients get out of their troubles with some exceptional financial support from BSL, sometimes going beyond the delegated authority levels of the credit/recovery officer”*. However, there were few cases that some bank managers were punished (even losing jobs) for not implementing credit policies strictly. On this issue, a bank manager at the BSL commented: *“The Manager–Recoveries lost his job, because of granting credit facilities without proper authority and evaluation. But if those small clients or him were powerful or had come from the same social background as Lan Car Ltd. and Teak Ltd. he would have got another reward instead of losing his job”*. This evidence reflects that although the BSL bank had very well written procedure manuals for most of the lending and control processes, the people in its controlling positions tend to articulate more powerful cultural politics, such as “rewards/gifts” and manipulative tactics over the delivery of those organizational goals.

Exploitation and discrimination of small enterprise clients in the BSL's credit control process

The inequality and exploitation of marginalized communities is not an unusual feature in the "political economies", such as Sri Lanka (Jayasinghe and Thomas, 2009). This has been seen in the BSL bank that the exploitation and discrimination of small enterprise clients in the enterprise lending process was a common practice. The empirical study results indicated that most of the small size credit applicants, whose facilities were not current but under recovery, got into a "discriminatory" situation, struggling to save their houses, which were mortgaged to the Bank, and looking for an opportunity to present their cases to the chairman or top level management of the BSL. A senior BSL manager commented: *"Many such clients did not have the necessary social contact reach the top management or Chairman. They are from lower or lower middle class and not belonged to any of those powerful networks, so they are powerless. Obviously, they are different to Lan Car and Teak Ltd customers"*. Commonly, when these small enterprise clients got into the financial troubles, such as a liquidity crisis due to expansion (overtrading), credit officers had felt panic and tried to recover interest and capital in areas pushing those clients into much deeper trouble.

Also, there were some cases that the BLS bank's credit control department had overcharged these small enterprise clients. In one such instance, of a client who provided janitorial services to the bank, the bank officer had said: *"the new credit officer did not extend advances against payments from the bank for the services the client rendered and did not allow withdrawals from his account until 'over-dues' are cleared, despite payments to him from the bank being still overdue for months"*. Regarding this incident, another BSL officer reported: *". . . it was later revealed that the branch has over-recovered (charged) interest, substantial enough to recover half the term loan. These guys were too small to afford qualified or experienced accountants and totally relied on the bank statements. This is a very common issue in BSL credit control process; clearly there is a lack of respect and protection to small enterprise clients!!"* Explaining the BSL Bank culture of exploitation and discrimination against small enterprise clients, another bank official agreed: *"the overcharging of interest from one small-scale client shows not only how shortfalls in simple checks and balances were overlooked, but also how much personal animosity against a client on narrow personal issues, could kill simple obligations in banking".*

As mentioned before, the BSL bank's enterprise/project funding scheme had the BSL Bank consequentially tied up with the chairman's obligations to Western and Central REDA. It was expected that these self-funded schemes generate more employment opportunities in the country. On the other hand, there is a "public norm" that the rights in the society should be translated into "generally acceptable laws and policies" to protect marginalized people and groups from continued exploitation and exclusion. The organizations and society are accountable to create fair access for these individuals and groups to development (Cooper and Wright, 2004). However, the case stories analyzed in this section reflect totally opposite findings. Thus so called "objective" lending and control process at the BSL bank was being "abused" by the traditionally "exploitative" and "discriminatory" cultural politics in the Sri Lankan society. Reconfirming the previous findings by some critical accounting researchers whom focused on the economic disparities and social inequality in some countries, the access to credit in BSL bank was limited only for the privileged groups in the society (Bank of England, 1999; Cavalluzzo, Cavalluzzo, & Wolken, 2002; Dunn & Cheatham, 1993; Ivy, 1997).

Conclusion

The paper examined the enterprise lending and control processes used in the closely-held banks, and answered the research question of how those processes are being influenced by the distinctive cultural and political processes at the organizational and society level. In contrast to the previous survey based accounting and bank lending research (e.g. Green et al., 2007), this study used a deep "qualitative inquiry" which was based on three cases built upon the life experiences of several employees in a closely-held bank in Sri Lanka. Using cultural political economy theory, the study attempted to understand distinct cultural politics behind closely-held banks' enterprise lending and control processes.

The study's findings reflected ongoing conflicts between different and competing "value rationalities" of the owner of economic capital, operational level bank officials and also the clients representing different class levels. It arrived at the conclusion that the cultural and political factors, such as egoistic motives and politics, gifts/rewards and manipulative culture and exploitative and discriminatory politics at organizational and society level articulate into the closely held banks' enterprise lending and control processes (five Cs), and those actual processes merely become "ceremonial" practices, serving the petty political interest of its powerful capitalist business owners, such as bank chairman and large enterprise clients. From the perspective of cultural political economy, the closely held banks' credit approvals changed in pursuit of non-economic advantages, i.e. publicity, favoritism and rewards, and the allocation of economic capital (credit) and exchange manipulated for the owner's as well as credit managers' personal benefits and political interests. Thus it shows that in the context of closely held organizations such as BSL bank in Sri Lanka, the cultural political processes and the economic processes both are mutually inter-related and also equally important in shaping the meanings to their organizational practices and related economic decisions (refer Althusser, 1969, 1970; Jessop, 2009).

The paper makes an original contribution to the enterprise lending and controls literature, as this is the first "qualitative inquiry" on the inter-linkages between enterprise lending and control processes and organizational and society level cultural politics in closely-held banks. Despite its importance, the scholarly interest on this topic has been limited and, remains distinctly under-researched. Thus, the previous studies on bank lending and control either used large-scale surveys (e.g. Green et al., 2007) or otherwise, devoted their interest towards the role and impact of accounting in World Bank and IMF led lending schemes and policies (e.g. Neu et al., 2007).

The findings presented in the paper also re-confirm and extend the previous contributions made by critical accounting researchers, such as Wickramasinghe and Hopper (2005), Jayasinghe and Wickramasinghe (2007), Uddin (2009), Jayasinghe and Wickramasinghe (2011) and Tsamenyi et al. (2011) on cultural political economy of management accounting. Thus in a context like closely-held banks in Sri Lanka, the lending and control mechanisms such as cash flow analysis of clients business simply disappear and only operate as a "lip service" for highly politicized and manipulated decisions. As reported before, its findings also expand the understanding of inter-linkages between accounting, social mechanisms and establishment of capitalism (Weber, 1948; Cooper and Wright, 2004; Chiapello, 2007; Hooper and Kearins, 2008). Same as they argued, the “lending” and “controls” in the context of closely held banks, operate as a facilitative mechanism for “exploiting” organizations and “establishing” petty interest of the capitalist business owners; for instance, accounts sometimes prepared to show “fabricated pictures” of return on investment and healthy cash flows.

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Appendix I: Questionnaire 1 (General questions for bank officer interviews)

1. Please identify and provide details; credit amount, project description and application process (you are free to use fictitious names) for a credit applicant you are well aware of the credit application process followed.
2. Was it successful?
3. Did credit applicant attempt to approach higher authority to influence the loan officers who were doing formal credit process? How, what methods, did the credit applicant use to approach the decision-makers?
4. How and to what extent that the credit applicant has been accomodated by the decision-makers and what methods were followed?
5. Please describe the the project proposal in detail in relation to the general economic environment in Sri Lanka?
6. Please describe the loans negotiation processes in a form of dialog if you can recall them?
7. How and what methods were used to present those projects to the decision-makers?
8. What methods did the borrower use to convince the decision-makers? Please indicate as you believe, why did the bank decision-makers accommodate it? (If you feel comfortable to answer?)
9. What were the immediate results of the credit decision?
10. Please describe the present situation of the enterprise? Does it service the loan/s?

Appendix II: Questionnaire 2 (Analytical questions for bank officer interviews)

a) The approach and methods used by the borrower

Why did the credit applicant approach the chairperson direct?

- Was it because he is powerful?
- Was it because he is rich?
- Was it because he had the access or had the network?
- Has the applicant tried the formal methods before?

What was the outcome of such approaches?

In the case of denying the credit, did the credit applicant attempt to approach the decision-makers informally? Was it successful? If not, why?

b) The approach and the methods used by the lender

Why did the bank accommodate the credit applicant informally?

- The project is financially feasible?
- Because of the technical reasons such as excess liquidity?
- Because the decision-maker was deceptively guided by the capable credit applicants?
- Was it for personal gratification?
- Was it on sympathetic/patriotic/nationalistic grounds and/or based on social responsibility?
- Was it because of personal relationship?
- Was the decision influenced by the ego of the decision-maker?
- Did the organization structure force the decision-maker to make such decisions?
- Has the SME financing schemes of the government any impact on this decision?

c) The influencing factors

Please comment on the following factors in contributing or acting as roadblocks towards the decision-making process of this decision:

- Organization structure
- Poor management skills of the relevant bank officers
- Nationalistic or patriotic attitudes
- Egoistic motives
- Government policies on entrepreneurship development
- Government policies in SME financing

d) The decision-making process

Please critically analyze the decision-making process and comment on the following questions:

- Was it quick?
- Was it after following proper banking policies and procedures?
- Was it based on cash flows and proper credit evaluations?
- Were decision-makers rewarded as a result of those decisions?

e) **Concluding remarks**

Please feel free to express your views on this credit application with regards to the social network and economic and social power of individuals involved.

Also you can express your views on the impact of such credit decisions to economic development and addressing poverty problems in Sri Lanka.

Appendix III: An assessment of representation of Sri Lankan credit applicants in general by the credit applicants considered

	Level of representation		
Characteristic	*Lan Car Ltd.*	*Teak Ltd.*	*Small Group*
Legal form of the business entity	Average; with 2-5 private companies	High; with 1-3 private companies	High; sole proprietorship
Ownership	High; with 80% with owner-manager	High; with 80% with owner-manager	High; with 100% with owner-manager
Credit amount involved	Low; US$4 million is too large	Average; with US$500,000	High; with US$20,000
Type of business	High; labour intensive	Low; car manufacturing in Sri Lanka	High; labour intensive
Employment generation	Low (exceptionally high generation)	High	High
National interest	High with large exports	High with unique import substitution	High with high employment
Number of banks involved	Low (many banks)	High (a few banks)	High (only one bank)
Problems with collaterals	High	Average	High
Bank's authority level involved	Average with senior management	Average with senior management	High with middle management
Informal approach by the applicant	High	High	High
Informal methods by the decision-makers	High	High	Average
Success in credit approval	High	High	Low

Source: Compiled by the authors through annual reports and interviews

Appendix IV: An assessment of representation of private banks in Sri Lankan compared to the BSL Bank

	Level of representation					
Bank **Characteristic**	*1*	*2*	*3*	*4*	*5*	*6*
A few large shareholders	Yes	Likely	Yes	Yes	Yes	Yes
Large number of shareholders	Yes	Yes	Yes	Yes	Yes	No
Large shareholders interfere in decision-making	Yes	Likely	Yes	Likely	Yes	Yes
Bureaucratic management style	Yes	Yes	Yes	Yes	Yes	Yes
Rigid management policies and procedures	Yes	Yes	Yes	Yes	Yes	Yes
Regulated closely by CBSL	Yes	Yes	Yes	Yes	Yes	Yes
The external auditors are from Big Four audit firms	Yes	Yes	Yes	Yes	Yes	Average
Positive perception of investors; Measured by the PE ratio	Medium	High	High	High	Low	N/A
Branches are distributed all over the island	Yes	Yes	Yes	Yes	Yes	No
Catering to the same market	Yes	Yes	Likely	Likely	Yes	Likely
Similar deposit base structure	Yes	High	High	High	Yes	Average
Catering to corporate clients	Average	High	Average	Average	Average	Low
Level of non- performing loans	High	Low	Medium	Low	High	Medium
Level of similarity in transaction processing	High	High	High	High	High	Average

Source: Compiled by the authors through annual reports and interviews