goods would not be handed over till they had been paid for. Additionally, the facility was short-term and self-liquidating. The seller from Hong Kong exported the goods and when he presented the documents, was paid by the Bangkok branch (as the Hong Kong branch had confirmed the letter of credit). When documents arrived in Bangkok the client was sought but was nowhere to be found. Inquiries revealed that he had wound up his business and left the country a day after the exporter had been paid. The bank then took possession of the goods but when the cartons were opened, it was found that the goods were not what they were purported to be. In fact, they were practically of no value at all. The bank suffered a significant loss. It was later discovered that the "businessman of Bangkok" and the "exporter from Hong Kong" were, in fact, brothers-in-law and partners in crime.

This incident reveals the importance of a bank knowing to whom money is being lent. A person intent on cheating a bank can do so however tight or foolproof the documentation appears to be. Bankers, therefore, quite rightly follow a simple rule. If there is a doubt — even a very slight doubt — about the integrity and honesty of a client, they will not lend money. The risks are too great.

It is to reduce such risks that banks insist on a client being introduced. The banker works on the supposition that if a prospective client has been introduced by another whose credentials are above reproach then by extension the prospective client's credentials are also above reproach. So, if Raman Menon were approaching the Manufacturers Bank for the first time, the bank would ask for an introduction from one of its existing clients. Additionally, the bank will seek to find out whether Mr Menon had been banking with some other bank. If he had, a reference from that bank would also be sought.

In order to establish the credibility of the client a banker will always attempt to verify facts provided by him. The reasons are simple. A prospective borrower, optimistic of his future, may give information that may be too ambitious or hopeful. Conversely, with the intent of defrauding the bank the information supplied may be totally false. The banker will check all statements made as the acceptance of an unverified statement destroys the credibility of the analysis and bankers are aware that such an action can put their money at risk.

Several years ago a well-spoken gentleman approached the branch manager of a private sector bank and informed him that a mutual friend had recommended the bank to him for a loan to finance working capital. This was not verified because the person appeared genuine and respectable. The loan was arranged securing it to the hypothecation of stocks, book debts and fixed assets. There appeared to be adequate cover. A few years passed. The demand for the company's goods fell and its inventory became obsolete. The result was that the client became bankrupt. When the bank took steps to seize the inventory and fixed assets it was found that another bank had a first charge on the fixed assets. The bank manager was not aware of his inferior collateral as he had accepted the client's word without verifying it. It was later found that the client was not even a friend of the person the manager knew. He had merely dropped a name and the manager had bitten the bait. In this case the elementary precaution of verifying facts led the bank to lose a large sum of money.

Bankers verify facts and information provided by the client through various sources:

- Bank checkings which refer to the opinion of the bank where the new customer is known and the dealings he

has had. Banks, when asked for this information, are often noncommittal as they expose themselves to lawsuits and the like if they reveal more than they should. However, the language used is usually enough to give the querying banker adequate information.

- Through trade checkings which give an indication of the person's standing among his peers and his reputation.
- Customer checks give an idea of the opinion customers of the prospective borrower have of him.
- On site visits and asset verification give a fair idea if the factory/plant/business actually exist and the value of the assets.
- Collateral audit verifies if the collateral actually exists and whether it can be pledged or has it already been pledged to someone else.
- Verification of other statements made by whatever means.

Good bankers always "keep their ears to the ground", i.e. they look for information and gossip which can sometimes be surprisingly accurate. They also invariably react quickly to negative news as it is often the harbinger of very bad news. A good banker will not, however, react without checking the information that he has received because it may be untrue.

As borrowers, clients must always tell the truth. Even one small inexactitude puts the whole relationship in jeopardy as it makes the banker doubt the integrity and honesty of the client.

Chapter 7

Management

The single most important factor from a banker's point of view when he considers an application/proposal for credit facilities is the "management" of the firm. For, it is upon the quality, competence and vision of the management that the future of a company rests. A good, competent management can make a company grow while a weak, inefficient management can destroy even a thriving company. Corporate history is riddled with many such examples. The Ambanis with their vision and acumen have made Reliance a global giant. Others who tried to emulate them with grandiose plans are heard of no more. Chrysler was, in the early eighties, an ailing giant. Lee Iacocca, with tough and competent management policies turned the company around. In the first quarter of 1993, the big blue — IBM — dismissed its Chief Executive Officer, Akers, who was blamed for the company's dismal performance. Lou Gerstner, who was also President of American Express and then took charge of R.J.R. Nabisco after a multibillion dollar leveraged buy-out, was invited to become the new chief executive Officer of IBM. Mr Gerstner successfully turned IBM around. In India, Metal Box, Killick Nixon, Nirlon, The Gadgil Western Group, the Kamanis and many others have been brought

down from their positions of eminence and their management has to bear the guilt for this.

The banker, when approached by Rusi Daruwalla or Raman Menon for credit facilities, will initially determine their competence as managers for if they are not blessed with ability, foresight, tenacity, professionalism and integrity the enterprise will most likely not be a success.

In India, management can broadly be divided into two categories:

- Family management
- Professional management.

Family Management

Family managed companies are those that have at their helm a member of the controlling family. The chairman or the chief executive officer is usually a member of the "ruling" family and the board of directors are either members of the family or their friends, i.e. "rubber stamp". Mr T. Thomas, a former chairman of Hindustan Lever Ltd, describes the family business structure most eloquently in his memoir *To Challenge and to Change*. He speaks of an Indian family business having a series of concentric circles emanating from a core — the core being made up of the founder and his brothers or sons. The next circle is the extended family of cousins and relatives followed by people from the same religious or caste group. The fourth circle comprises of people from the same language group and the outermost circle has people from the same region. According to Mr Thomas to go beyond this was "like going out of orbit — unthinkable risky".

Of late, there has been some change in the way family controlled families are managed. In the beginning these businesses were often orthodox, autocratic, traditional, rig

and averse to change. This is no longer true. The sons and the grandsons of the founding fathers have been educated at the best business schools abroad and are thus exposed to modern methods of management. Consequently, in many family managed companies, although the man at the helm is a scion of the family, his subordinates are graduates of business schools — professional managers. This combines, to an extent, the best of two worlds and many such businesses are very successful. The frustration for the professional manager in such companies is that he knows that he will never, ever run the company — that privilege will always be with a member of the family.

Professional Management

Professionally managed companies are those that are managed by paid employees. In these companies the chief executive officer, normally, does not have a financial stake in the company; he is at the helm of affairs because of his ability and experience. The professional manager is a career employee and he remains at the seat of power so long as he meets his business targets. Consequently, he is always results-oriented but his aim is often short-term — the meeting of the annual budget; he is not necessarily influenced by loyalty to the company. As a professional he usually is aware of the latest trends in management philosophy and tries to introduce these in the company he runs. He tries to run it like a lean, effective machine striving for increased efficiency and productivity. As a consequence, professionally managed companies are usually well organized, growth oriented and perform well. Their investors receive regular dividends and bonus issues. However, there is often a lack of long-term commitment, and sometimes a lack of loyalty. This is because, in time, the professional manager has to step down — retire — and he cannot therefore enjoy the