The importance of trust for inter-organizational relationships: a study of interbank market practices in a crisis

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Abstract

Purpose – This paper examines interbank market practices in a crisis in order to understand the importance of trust in dealing with control problems and managing risk in inter-organizational relationships.

Design/methodology/approach – A qualitative field study was conducted to collect data from two case-study banks and two key banking industry institutions.

Findings – The findings illustrate the use of trust-based partner-selection criteria such as guaranteed banks (i.e. banks granted special status by key banking industry institutions) and “clan-related” banks. In addition, the findings present several trust-based performance-control processes regarding the selected counterparties, such as negative expectations, goodwill, and information sharing.

Theoretical implications – This paper highlights inter-organizational relationships and considers how associated control problems and risks are affected by trust in the context of a large-scale crisis.

Practical implications – The findings provide insights into interbank market practices during the global financial crisis with respect to partner selection and performance control.

Originality/value – The empirical case of the banking industry helps broaden our understanding of inter-organizational relationships.

Keywords Banks, Global financial crisis, Interbank, Inter-organizational relationships, Trust

Introduction

Inter-organizational relationships (IORs) have attracted research attention in the accounting and management control literature (Berry *et al.*, 2009; Hopwood, 1996; Otley, 1994; Otley and Soin, 2014). In IORs, various transacting counterparties engage in value-creating exchanges (Ouchi, 1980); these exchanges, however, present control problems and involve risks (Caglio and Ditillo, 2008; Das and Teng, 2001). The literature recognizes that in IORs, risk in terms of opportunistic behaviour and poor performance can be detrimental to the interests of counterparties (Das and Teng, 2001). Consequently, risk is associated with negative outcomes and necessitates risk management, which entails designing and implementing appropriate controls (MacCrimmon and Wehrung, 1990).

Risk becomes more of an issue in crises, which are associated with increased uncertainty (Otley and Soin, 2014). As Slagmulder (2016) suggests, the greater the uncertainty, the greater the expected failure of risk management. As indicated by the following statement, crises also affect IORs:

We are in the midst of an unusually synchronized global recession and US growth is being hurt by the deterioration of economic conditions in all of our major trading partners. (Kasman, quoted in Cocheo, 2009)

The above statement was made by Bruce Kasman, Chief Economist for J.P. Morgan Chase.¹ It expresses concern about changes in the economic condition of all the bank's counterparties, changes entailing uncertainty that could put future transactions at risk. The quotation addresses the seriousness of the global financial crisis (GFC), a large-scale crisis that placed enormous pressure on risk management (Hopwood, 2009).

The literature recognizes that trust can be used in dealing with control problems and managing risks in IORs (Gambetta, 1988; Granovetter, 1985; Ouchi, 1980; Simmel, 1990; Tomkins, 2001). As literature reviews (e.g. Baldvinsdottir et al., 2011; Fink et al., 2010; Rousseau et al., 1998) confirm, trust is defined in countless ways, meaning that the concept is nuanced. (In this paper, trust will be defined in detail in the next section.) Trust is characterized as a non-technical feature of management accounting (Burns, 2016) and a "functional alternative to rational prediction" (Frankel, 1977, p. 36). Previous studies (e.g. Dekker, 2004; De Rond, 2003) have found that, especially in crises, the use of trust is emphasized. More specifically, Ding et al. (2013) found that the studied organizations used trust-based selection criteria to sort among counterparties presenting opportunistic behaviour, and in a similar vein, van der Meer-Kooistra and Vosselman (2000) found that cooperating parties used trust to control promised performance levels.

However, as indicated by literature reviews, IOR studies of the interbank market are lacking (see Caglio and Ditillo, 2008; Håkansson and Lind, 2006; Meira *et al.*, 2010; Mineev, 2014; Otley and Soin, 2014). It can be noted that the interbank market is a prime locus of IORs in the banking industry despite at least three interesting features. First, transactions in this market involve colossal amounts of money, which is not necessarily material money (cf. Håkansson and Olsen, 2015), but actually relies on elements of credit that, according to Simmel (1990), embody trust. Second, even in the midst of a crisis, parties are limited to pausing transactions with counterparties due to the need for frequent transaction settlement and due to obligations, such as decentralized liquidity allocation, established by banking laws (Dietrich and Vollmer, 2010). Third, because the transactions are unsecured, any break in the chain of transactions can cause counterparty defaults that could result in additional substantial losses (King, 2008). Such losses are not only costly to the immediate counterparties (e.g. through increased bank funding costs and serious liquidity shortages extending to worldwide banks) but may also endanger the financial stability of nations (Craig *et al.* 2015; Heider and Hoerova, 2009). Moreover, there is a lack of research into how, in the context of a large-scale crisis, an idiosyncratic shock to a single bank leading to its default (i.e. Lehman Brothers) was transmitted to the banking industry, causing a systemic financial sector crisis (*The Economist*, 2008).

¹ J.P. Morgan Chase is representative of the banking industry.

This paper examines interbank market practices in a crisis in order to understand the importance of trust in dealing with control problems and managing risk in IORs. A qualitative field study was conducted in response to recommendations by Modell and Humphrey (2008):

For all the supposedly technical complexity of modern-day risk management practices in the financial services sector and the rise of financial econometrics, today's credit-crunch and string of banking collapses is one very timely practical reminder of the potential gains to be had from studying a highly quantitative arena from a qualitative perspective (p. 88).

In addition, Caglio and Ditillo's (2008) review suggests examining practices in order to keep pace with organizational realities. Similarly, Meira *et al.* (2010) recommends an organizational approach combined with case study design. In their empirical study, Dekker *et al.* (2013) find that the study of risk management is contingent on the actual practices examined. In the present study, data were collected through interviews at two banks and two key banking industry institutions. The interview questions used the GFC as a reference point that has been characterized as a "Black Swan" that ushered in uncertain times for banks and the interbank market (Taylor and Williams, 2009). For data analysis, interpretative approaches were used and the analysis targeted first-hand interviewee accounts, which were later informed by theories of trust and related to the accounting and management control literature.

This paper contributes to the literature in at least three ways. First, for some time, a running theme in theory development has been the relevance of trust to IORs (see Baldvinsdottir *et al.*, 2011; Burns, 2016; Tomkins, 2001; Vosselman and van der Meer-Kooistra, 2009). The main findings of the present paper are that, during the GFC, trust-based selection criteria were critical for prioritizing between counterparties and that trust was integral to monitoring the performance levels of the selected counterparties. Previous studies (e.g. Dekker, 2004; Van der Meer-Kooistra and Vosselman, 2000) have not examined IORs in the banking industry and not considered such a large-scale crisis. As suggested by Caglio and Ditillo (2008), expanding the empirical basis of studies of IORs could advance theory development.

Second, the present paper finds that, in selecting counterparty banks for ongoing transactions during the GFC, a major selection criterion was that the banks should be guaranteed, i.e. enjoy guarantees and safety nets provided by governments and key banking industry institutions. The implied reliance on trust engendered by these third parties confirms the criticality of these parties in IORs (see Håkansson *et al.* 2010).

Third, as will be illustrated later, another major selection criterion was that counterparties should be "clan related". Trust, as an operating logic between large banks, has previously been observed in smaller firms (Ding *et al.*, 2013) and in industries such as the airline industry (Neumann, 2010).

The remainder of the paper is structured as follows. The next two sections present the frame of reference followed by the research method. The findings are then presented and interpreted, after which the discussion section first summarizes and then explores the findings. The last section presents conclusions, research limitations, and suggestions for future research.

Frame of reference

Inter-organizational relationships

There are several indications of the attractiveness of the study of IORs in the accounting and management control literature. Early on, Hopwood (1996) advocated “the examination of some of the accounting and informational consequences of more explicit concerns with the management of supplier chains and a more conscious questioning of what activities reside within and without the enterprise” (p. 590). Special issues (e.g. van der Meer-Kooistra and Vosselman, 2006), literature reviews (Caglio and Ditillo, 2008; Håkansson and Lind, 2006; Meira *et al.*, 2010), and books (e.g. Håkansson *et al.*, 2010; Otley and Soin, 2014) are further indications of the ongoing attractiveness of this study area.

Previous studies indicate that IORs can include alliances (Dekker *et al.*, 2013), supply chains (Seal *et al.*, 1999), and outsourcing (van der Meer-Kooistra and Vosselman, 2000). In these relationships, cooperating organizations can interact in both the upstream and downstream directions (Berry *et al.*, 2005). In operation, these relationships may also involve third parties, which, according to Håkansson *et al.* (2010), have become critical given changing business landscapes. One rule of thumb is that the more complex the relationships, the more complex we can expect transactions to be (Macher and Richman, 2008).

So far, accounting and management control researchers have studied IORs in several industrial settings, such as the accounting (Nicholson *et al.*, 2006), airline (Emsley and Kidon, 2007; Neumann, 2010), automotive (Pernot and Roodhooft, 2014), electricity (Langfield-Smith and Smith, 2003), IT (Håkansson and Olsen, 2015), manufacturing (Cäker, 2008), oil (van der Meer-Kooistra and Vosselman, 2000), retail (Free, 2007, 2008), services (Sydow and Windeler, 2003), and telecom (Håkansson and Lind, 2004) industries, as well as in the public sector (Carlsson-Wall *et al.*, 2011; Cäker and Siverbo, 2011). However, these researchers seem not to have explored IORs in the banking industry (see Caglio and Ditillo, 2008; Håkansson and Lind, 2006; Meira *et al.*, 2010; Mineev, 2014; Otley and Soin, 2014).

The existence of alliances has been noted in the banking industry. For example, the Society for Worldwide Interbank Financial Telecommunications (SWIFT) itself represents an alliance (Williams, 2005); banks establish networks for downstream service delivery, for example, via automatic teller machines; and banks partner with technology providers for other downstream deliveries, such as Internet banking (Pennings and Harianto, 1992). As noted, however, studies of IORs in the interbank market are lacking that are of importance for upstream purposes.

Control problems and risk management

In IORs, parties may be concerned about appropriation and cooperation problems. According to Caglio and Ditillo (2008), the appropriation problem is the concern that the “value of the joint output is perceived by the parties to be clearly and fairly distributed ... and that the resources exchanged are not misappropriated” (p. 891). The cooperation problem is the concern that “autonomous partners may have incentives to cheat and free-ride in order to attain their own specific goals at the expense of the objectives of the collective undertaking, so they need to introduce mechanisms to align their objectives” (Caglio and Ditillo, 2008, p. 891).

The literature recognizes that, in addressing control problems and managing risk in IORs, organizations can use suitable governance structures (Ouchi, 1980), contracts (Dekker, 2004), as well as various accounting and cost-control information (Cooper and Slagmulder, 2004; Mouritsen *et al.*, 2001). Trust has also been recognized as useful in dealing with control problems and managing risk in IORs (Baldvinsdottir *et al.*, 2011), and this will be elaborated on in the next subsection. More recent research findings indicate that organizations can use industry-wide standards (Anderson *et al.*, 2014). In the banking industry, such standards, as Hopwood (2009) recognizes, are a consequence of managerial innovation, which has emerged from the audit industry but also, as Mikes (2009) finds, results from the reregulation of the banking industry. Risk management standards are intended to guide banks on to how identify and control risks.

Studies indicate that one way to deal with control problems and manage risk in IORs is to prioritize between counterparties by focusing on certain selection criteria. To cite an example from the banking industry, at loan origination, banks typically select counterparties by considering criteria through evaluating prior relationships, firm size, national and international aspects, and the amount of money (Cocco *et al.*, 2009). However, King (2008) observes that interbank counterparties are typically hindered from fully exploiting these selection criteria due to the opaqueness of banks and the fact that banks have traditionally not felt the urge to conduct very rigorous evaluations.

Another way is to set up appropriate processes and use various means to monitor the selected counterparties' performance levels with respect to promises (Dekker *et al.*, 2013). Banking studies indicate that banks monitor interbank counterparties by gathering various sets of financial market and accounting-based data, for example, retrieved from annual reports (see Curry *et al.*, 2008), using them to predict future stipulated contractual and covenant performance. In this process, banks take into account that risk management standards (e.g. the Basel II Accord) and third parties (e.g. credit rating agencies) in the banking industry promote the use of certain information technology (IT). For example, credit ratings – calculated and compiled with IT – that signal default risk (Curry *et al.*, 2008) could indicate potential for the breaking of contracts. In line with Arrow and Fisher's (1974) argument, such technologies are intended to reduce transaction costs of information gathering and generating. Moreover, they create less dependence on forming and maintaining relationships with and personal knowledge of counterparties, reflecting our culture's increasing emphasis on objective knowledge (Simmel, 1950).

Trust

The literature presents trust as a nuanced concept.² According to Simmel (1950), trust is considered a powerful "force" that can support individual decision making regarding future resource allocation. Trust bridges the present and future by anticipating the future and potential outcomes (Barbalet, 2009): "This problem of time is bridged by trust, paid ahead of time as an advance on success"

² Trust is variously defined in terms of its benefits (e.g. cooperation, political cohesion, reliability, and social order), the disposition of those who extend it (e.g. affective, calculative, moral, and pragmatic), or the character of the relationship between the trusting and the putatively trustworthy (e.g. contractual, dependent, exploitative, and reciprocal) (Barbalet, 2009, p. 5).

(Luhmann, 1979, p. 25). Regarding the function of trust,³ Simmel (1990, pp. 177–178) highlights the imperative to trust by suggesting that:

Without the general trust that people have in each other, society itself would disintegrate, for very few relationships are based entirely upon what is known with certainty about another person, and very few relationships would endure if trust were not as strong as, or stronger than, rational proof or personal observation.

Trust is often found in collaborative relationships (Uzzi, 1997) and clans (Ouchi, 1980), and has also been observed by prior studies of IORs in various industrial settings relevant to dealing with the abovementioned control problems (i.e. appropriation and cooperation problems) (Brownlie and Howson, 2005; Chua and Mahama, 2007; Coletti *et al.*, 2005; Cooper and Slagmulder, 2004; Ding *et al.*, 2013; Seal and Vincent-Jones, 1997).

Interpretation

According to Möllering (2001), trust is a process that begins with interpretation, conveying the idea that human experience of the world creates the “good reasons” that constitute the basis of trust. In this regard, Simmel (1990) recognizes two bases of trust, institutional and relational, which are analytically distinct but practically complementary.

Institutional trust

Institutional trust hinges on the idea that certain institutions promote trust (Zucker, 1986). According to Luhmann (1979), these institutions replace inner certainty with external certainty and, in so doing, increase the tolerance of uncertainty in external relationships. The reference to external relationships implies that institutional trust operates in the context in which transactions occur (Vosselman and van der Meer-Kooistra, 2009). Institutional trust typically encompasses the economic, social, and technical aspects of relationships (van der Meer-Kooistra and Scapens, 2008; Williamson, 1981). Moreover, institutions that promote trust (e.g. regulatory and legal institutions) have a pre-contractual role and provide structures promoting stability seeking and order based on procedural fairness, which can sometimes compensate for negative expectations (Vosselman and van der Meer-Kooistra, 2009). I will examine these negative expectations later.

Furthermore, institutions typically attempt to influence the development of relationships at the transactional level (e.g. via standard-setting organizations) and to find ways to intervene to alter the direction of potential conflicts (e.g. via economic association), seeking to meet a prerequisite for order (Misztal, 1996, pp. 26–32). When a crisis shakes the basis of control, institutional trust can enforce self-regulation and provide security based on guarantees and safety nets (Mineev, 2014; van der Meer-Kooistra and Vosselman, 2000).

According to Zucker (1986), institutional trust is not based on the personal characteristics of individuals or on past business relationships. In contrast, van der Meer-Kooistra and Scapens (2008) posit that researchers must look beyond such static views and instead envisage some degree of dynamics in this regard. Institutional trust is relevant to the study of money handling in the banking industry:

³ According to Möllering (2001), research has largely explored the functional properties of trust.

The feeling of personal security that the possession of money gives is perhaps the most concentrated and pointed form and manifestation of confidence in the socio-political organization and order. (Simmel, 1990, p. 178)

Moreover, as Baldvinsdottir *et al.* (2011) have noted, during the GFC the interbank markets functioned only when guaranteed by governments. In the USA, for example, during the GFC the government placed Fannie Mae and Freddie Mac in conservatorship (Yeager, 2011) and instituted rescue programmes to capitalize banks (Pro Publica, 2015). Moreover, the US Federal Reserve carried out two large-scale quantitative easing programmes by purchasing trillions of dollars in long-term securities (Labonte, 2015).

Relational trust

According to Barbalet (2009, p. 371), relational trust is based on the idea that trust is a sense of mutual reliance and security between people. Some studies (e.g. Berry *et al.*, 2005; Cullen and Meira, 2010) have found that IORs follow several development stages in terms of firm autonomy, serial dependence, reciprocal dependence, and mutual dependence. What is interesting about relationship development is the opportunity it gives to build relational trust, which could offer increased and more refined access to information. Cooper and Slagmulder (2004) found that sharing various types of cost information produced confidence (for more treatment of information-sharing, see Carr and Ng, 1995; Mouritsen *et al.*, 2001; Seal *et al.*, 1999).

Studies have also found that power and goodwill are important aspects of relational trust. On one hand, Cäker (2008) noted that in IORs, the dominant party can exercise power over relationships, for example, influencing information flow. Such findings suggest that trust-building is not always a given. Instead, because IORs may be asymmetrical, parties can exploit trust, leading to what Giddens (1990) calls trust-breaking. On the other hand, Dekker (2004) argues that, in an IOR, selecting a good partner can resolve the problem of opportunistic behaviour, especially when transactions are occurring in times of crisis. In addition, De Rond (2003) found that parties in alliances control performance levels based on the smoothness of cooperation and not based on economic outcomes.

Relational trust is relevant to the study of the banking industry, in which relationships can be characterized as “stable, long-standing and buttressed, very often, by social relationships” (Mayer, 1976, p. 248). As will be further illustrated in this paper, relational trust offers risk management capacities to banks in a crisis.

Expectations

According to Möllering (2001), the trust process ends with a state of expectation.⁴ Expectations can be either positive or negative, offering functional input for action (e.g. cooperation) or inaction and the failure of organization. Expectations include choices, which are not necessarily based on pertinent knowledge (Luhmann, 2008). Trust enters “where more exact knowledge is not available” (Frankel, 1977, p. 36) and builds on evidence of correctness, observable after trust has been granted. The evidence of correctness can be reconciled against reciprocity, which, according to Möllering (2001) is the relational quality of trust.

⁴ Simmel’s (1990) original model of trust consisted of three elements, i.e. interpretation, expectation, and suspension; the present paper deals only with interpretation and expectation.

Positive expectations

Positive expectations, referring to a state regarding other people's actions and intentions, centre on the existence of benevolence mediated through relationships. Due to the expectancy of benevolence, however, there is an element of vulnerability (Barbalet, 2009). In relationships, partners have both the opportunity and the incentive to be opportunistic and not fulfil the expectancy of benevolence (Nooteboom, 1999). According to Barbalet (2009), the vulnerability of the trust-giver is the cost of trust and can only be known after trust has been granted. In certain ways, trust can also be characterized as dependency, meaning that the trust-giver accepts dependency on the trust-receiver despite apparent information asymmetries (Luhmann, 1979; Rousseau *et al.*, 1998).⁵ Relationships of dependence are inherently asymmetrical (Barbalet, 2009).

Negative expectations

Negative expectations are associated with distrust and originate in parties' uncertainties and lack of knowledge about the future behaviour of counterparties regarding explicit and implicit promises (Lindenberg, 2000; Möllering, 2005). The legitimacy of negative expectations can also be established when third parties, which operate outside the directly involved parties' immediate relationships, identify issues of distrust (Lindenberg, 2000). According to Sitkin and Roth (1993), distrust manifests itself in fear, vigilance, and suspicion. To address negative expectations, parties may reduce the opportunities and incentives for risk. Through this process, however, parties must avoid being accused of abnormal risk aversion (Möllering, 2005).

Reciprocity

Gouldner (1960) distinguishes two aspects of reciprocity. The first aspect is reciprocity as a pattern of mutually contingent exchanges that can be distinguished as heteromorphic or homomorphic (Gouldner, 1960, p. 161). In heteromorphic exchanges, a good or service is repaid with a different good or service of equal value, while in homomorphic exchanges, a good or service is repaid with exactly the same good or service (Gouldner, 1960, p. 172). The second aspect, reciprocity as a norm that "evokes obligations toward others on the basis of their past behaviour" (Gouldner, 1960, p. 170), can be used to distinguish positive from negative reciprocity. The expression "an eye for an eye" exemplifies negative reciprocity in which parties can induce the negative sanctioning of norm-breakers, even though such sanctioning will have negative consequences.

According to Gouldner (1960), reciprocal behaviour might be driven by purely egoistic motives: "if you want to be helped by others you must help them" (p. 173). In this regard, Ouchi (1980) states that reciprocity between exchange parties in IORs means that opportunistic behaviours, if discovered, will have social consequences not only for the immediate parties but also other parties.

⁵ By referring to vulnerability and dependency, the present paper seeks to position trust not necessarily as a direct alternative to control based on accounting and other similar "hard" information (cf. Tomkins, 2001). The understanding of the accounting and management control literature is that trust and accounting can interact in several ways, as trust and accounting assume each other's existence, refer to each other, create each other, are irreducible to each other, and require suspension (cf. Baldvinsdottir *et al.*, 2011; Möllering, 2005; Tomkins, 2001; Vosselman and Meer-Kooistra, 2009).

Method

Research approach

The selected research approach was the case study design (Simons, 2009), which Meira *et al.* (2010) claim is preferred for studies of IORs. Given the complex nature of IORs, the expected benefit of the approach was the opportunity to study practices from within a specific context (see Lamming *et al.*, 2004). Case studies are generally popular in accounting and management control research, primarily because accounting and control cannot be fully understood in isolation (Otley and Berry, 1994). Related to the empirical field, Gooneratne and Hoque (2013) note that the case study design has been widely used in banking research.

Moreover, the case study design permits consideration of how people understand their world and gives access to more options than just the singular mode of human interpretation, for example, positivist views. Simply stated, the arbitrariness of the “good reasons” pre-existing trust (Simmel, 1990) needs to be captured by an appropriate research approach other than those associated with quantitative methods (e.g. surveys and experiments).

Research context

As mentioned above, the GFC served as a reference point when collecting data. Among the very first signs of the GFC were abnormal market behaviours in 2007:

On Thursday, August 9, 2007 traders in New York, London, and other financial centres around the world suddenly faced a dramatic change in conditions in the money markets. The federal funds rate – the interest rate on overnight loans between banks – jumped to unusually high levels compared with the Fed’s target. (Taylor and Williams, 2009)

These abnormal market behaviours caused the value of securitized bank assets to decline substantially (Allen and Carletti, 2010). Following the Lehman Brothers default in September 2008, several control problems in the interbank market intensified. The following statement illustrates the situation:

A growing number of banks are being subjected to a wholesale version of a bank run, with access to wholesale funding evaporating in a matter of days, if not hours. (*The Economist*, 2008)

Subsequently, stock markets around the world plunged. For example, on 10 October 2008, the Dow Jones Industrial Average hit an intraday low of 7773.71, down from 14,078.69 just one year earlier. Among banks and financial companies, there were extreme cases. The FTSE Global Banks Index dropped by more than 57% during the course of 2008 (Alexander, 2009). In 2009, several Swedish banks required government rescues to continue operations.

Data, data collection, and analysis

Two of Sweden’s largest banks provided research access. The two banks are competitors, similar in size and business activities. These banks were seen as appropriate cases because studies have demonstrated that large banks are usually deeply involved in the interbank market and were more affected by the GFC than were smaller banks (Berger *et al.*, 2015). Moreover, during the GFC, “Bank A” accrued large losses, because of which it required shareholder capital injection and had to participate in the national government rescue programme. Because of its constrained liquidity

situation, Bank A was considered a risky counterparty during the GFC. In contrast, “Bank B” required neither shareholder support nor government rescue and was considered a more creditworthy counterparty during the GFC. In the context of the GFC and the interbank market, the two case-study banks can be considered complementary and substantively different cases.

The two case banks were located in Sweden, where only one bank failed because of the GFC, though government authorities did seize a subsidiary of a foreign bank. In comparison, the number of bank defaults was far larger in the USA (Federal Deposit Insurance Corporation, 2013). Sweden can be seen as a country with cooperative capitalism and a bank-based economy in which banks are considered important sources of external funding for firms in general (Zhang *et al.*, 2016).

Twenty-seven interviews, allocated between Bank A (eleven interviews) and Bank B (sixteen interviews), were conducted with top management and high-ranking bank officers working in the “interconnected areas of risk management” (see Kaplan, 2011, p. 373). In addition, two more interviews were conducted with individuals representing key banking industry institutions (henceforth, “key institutions”): a bank analyst at an international credit rating agency and the General Counsel of the National Debt Office in charge of the government rescue programmes during the GFC. These additional interviews were motivated by Ahrens and Chapman’s (2006) claim that qualitative field studies can occur at the level of specific organizations or organizational relationships.

The interviews used semi-structured questions treating partner-selection criteria as well as performance-control processes during the GFC. According to Qu and Dumay (2011), semi-structured interviews can be useful for capturing and revealing important and often hidden facets of human and organizational behaviour. Moreover, Möllering (2001) recommends open-ended over restrictive approaches when interviewing to explore trust, something that is included in the semi-structured interview technique.

All 29 interviews were conducted at the interviewees’ offices in a face-to-face setting, which Tucker and Parker (2014) claim offers the greatest likelihood that the interviewees will reveal relevant information and respond to complex and exploratory questions. Two researchers, the author and a research colleague, conducted 26 bank interviews and the General Counsel interview (each with a single interviewee). The author alone conducted the final bank interview (with two interviewees) and the interview with the single representative of the rating agency. Using two researchers in most of the interviews provided opportunities for an active interviewing mode. We desired interactions that prevented the interviewee from becoming comfortable and providing responses that one could simply read in the press. Instead, the interview approach was intended to enhance access to the interviewees’ perceptions or “interpretative capabilities” (see Holstein and Gubrium, 1997). According to Brownlie and Howson (2005), actors’ own interpretations of reality provide opportunities to explore “the interpretive elements of trust” (p. 222). The Appendix lists specific details of the interviews, which lasted on average 45–60 minutes and were audio-recorded and transcribed.

In addition, statistics and reports from key institutions, such as the Swedish central bank (Riksbank) and the National Debt Office, were reviewed (Goodhart and Rochet, 2010; Nygren, 2010; Strömberg, 2011) to get an impression of transactions in the interbank market and the Swedish government’s rescues of banks during the GFC.

Throughout the fieldwork, the author met with the research colleague after each interview to discuss the initial observations and plan the next interview. Preliminary analysis of the first nine bank interviews provided a platform for discussing some of the initial findings. After the data collection

was complete and saturation had been reached, several steps were taken to analyse the data using interpretive approaches (Modell and Humphrey, 2008). The steps were conducted iteratively, although they are presented sequentially here.

A first step in the post-interview data analysis was to review the data, which comprised the field notes, interview data compiled in transcripts, and additional data from the Riksbank and the National Debt Office. This review, intended to explore the relevant partner-selection criteria and performance-control processes, resulted in several major coding categories.

The partner-selection criteria were classified into two major categories: guaranteed banks and “clan-related” banks. Each major category included several subcategories of trust-related codes: guaranteed banks – i) systemically important banks, ii) government authorities, and iii) central banks; clan-related banks – i) core team, ii) network experience, iii) benevolence in relationship history, and iv) power.

Similarly, the related performance-control processes were classified into major categories and subcategories that stressed trust. To some degree, the findings regarding performance-control processes for the guaranteed banks and associated bail-outs required searching for interviewee statements regarding the rejection of bail-outs and how the bank employees dealt with awareness of their own uncertainty. The findings regarding performance-control processes for the clan-related banks involved searching for accounts of power, reciprocal behaviours, goodwill, and information sharing.

This was followed by an analysis of the data on the case-study banks. Data on each bank were first reviewed separately; then findings on the banks were compared through cross-case analysis. Because of major similarities between the studied banks, the findings are not presented individually for each bank. Dissimilarities between the banks are, however, highlighted when presenting the findings.

Next, representative interview comments were identified that could be used to support the findings regarding partner-selection criteria and performance-control processes. These comments are presented in “Findings” to fulfil the high level of setting specificity required by Mineev (2014) for theory development and to pay meticulous attention to the subtle details of human interpretation required by trust theorists (e.g. Möllering, 2001).⁶ The comments were translated into English by the author. The interview quotations also reflect the temporality of the time of crisis.

Furthermore, the interpretation involved making thick descriptions through the analytical lens of trust. Some attempts were made to achieve an alternative organization of the “evidence”. It should be mentioned that writing a “story” about the use of trust is rarely about making “rational choices” (see Williamson, 1993). Instead, as Barbalet (2009) notes, “decisions to trust emerge as negotiated, internally reflexive and possibly idiosyncratic meanings. It is this hermeneutic element of trust that frustrates construction of a purely formal account of it” (p. 376).

Because the banking industry has not previously been explored in the accounting and management control literature, I use the initial part of the “Findings” section to describe features of the observed banking practices related to the interbank market.

⁶ Möllering (2001) highlights the importance of covering idiosyncratic praxis and paying attention to the fine details of interpretation.

Findings

Interbank market practices

According to the interviewees, the interbank market involves highly complex transactions and includes a large number of counterparties in terms of banks, central banks, and other financial institutions around the world. The transactions involved are high in value. According to Riksbank statistics (e.g. Strömberg, 2011), on an average day in 2010, 39% of the world's currency trades occurred in the interbank market. Transactions include cash purchases of counterparties' bonds and derivatives in the financial markets and the overnight settlement and netting of daily trades. The transactions are input factors used to fund banking operations, such as loans to small and medium-sized firms.

These transactions require highly integrated systems between counterparties, as indicated by the interviewees; for example:

Modern banking is automated, very automated, and machines are programmed to send money.
(Director of Commercial Credits, Bank A)

According to the interviewees, the transactions mainly occur between counterparties on a one-to-one basis, counterparty size determining the direction of transactions:

We have to maintain transactions with the other [large] banks in Sweden. It is an obligation. (Vice-President of Public Relations, Bank B)

As the above comment indicates, Sweden's interbank market is regulated by banking laws⁷ that oblige selected banks in the country (including the two case-study banks) to take charge of liquidity allocation separately from the Riksbank. Generally, this obligation implies that banks must maintain transaction continuity during both normal times and crises.

As previously noted, the interbank market is used for funding banking operations, and the case-study banks had structured their organizations for this purpose in similar ways. Possibly because the transactions are part of a critical business activity, the case banks structured their organizations to produce similar outcomes. The following overview briefly describes this organizational structure.

The case-study banks separate their funding into short- and long-term funding, the former covering funding needs for up to one year. The bank's treasury function is in charge of all bank funding, planning the funding and preparing the required market operations. The treasury function interacts with counterparties for smaller market operations. Larger market operations, such as issuing bonds for long-term funding, are handled by the investment banking function, which interacts with numerous counterparties on world financial markets. The credit function assesses the creditworthiness of every counterparty according to a set of predefined assessment criteria (e.g. credit ratings) and signs contracts with the approved counterparties. After this step, a credit committee assigns the counterparty a line of credit, which the counterparty can use for various transactions. In addition, the credit function assigns a personal contact (e.g. client manager) for the day-to-day monitoring of counterparty performance against the provided credit lines and contract:

⁷ See Dietrich and Vollmer (2010).

Normally the banks manage the relationships with counterparties and [credit] lines through client managers. The client managers are not part of the treasury. Instead, we frame it this way. We have a counterparty remittance of X billions. Inside the bank, others [i.e. investment bankers] undertake transactions in derivatives and FOREX. Then you aggregate all of them and the client manager and the credit analyst make the assessments of the counterparty. (Vice Director of Treasury, Bank A)

During the GFC, however, there were serious problems with the relevance of established selection criteria; for example, an interviewee stated that:

Large international banks saw significantly lower credit ratings. (Bank Analyst, International Rating Agency)

With the default of Lehman Brothers and many other banks, credit ratings no longer provided basic estimates of the probability of banking defaults. Moreover, due to the worldwide plunge in stock markets, there were severe difficulties in relying on information that facilitated existing performance-control processes, such as monitoring counterparties' share prices. Several interview statements indicated that after the Lehman Brothers' default was announced, the top bank managers became personally involved in risk management, overruling the abovementioned organizational structure and responsibilities. As the following interview statement illustrates, the involvement of top bank managers was critical for selecting appropriate counterparties and channelling the transactions through them:

At first we choked off the transactions to see how the crisis would evolve ... In the meantime ... we shortened the maturity dates. If we could not identify any concrete matters where a particular bank had problems, we just cut their lines [of credit] ... we also concentrated our transaction volume of payments and deposits in fewer and larger banks. (Head of Treasury, Bank A)

The top bank managers' personal involvement was also observed, as illustrated by the following statements on setting up appropriate procedures:

For a few days, the Chief Executive Officer and I monitored all the payment traffic personally. Since the task of monitoring had been elevated ... We put ourselves behind the wheel, but we never had to drive the vehicle. (Director of Commercial Credits, Bank A)

There were a lot of conversations between me, the Chief Executive Officer, and the Vice-President of Finance, and we agreed on a framework and the line [of credit]. Then others were in charge of the actual execution and still others were to handle the inconvenient calls with the counterparties. (Vice-President of Public Relations, Bank B)

The next two sections describe and interpret the criteria used in selecting counterparties as well as the related performance-control processes for guaranteed banks and "clan-related" banks.

Guaranteed banks

Studied documents (e.g. Nygren, 2010) and bank as well as National Debt Office interviews indicated that, in the wider banking industry context, key institutions promote institutional trust. Typically, these key institutions are not involved in interbank market transactions and operate outside the studied banks' legal boundaries. The goal of these key institutions is to maintain national financial stability, because huge costs in terms of deposits and loan commitments are at stake. The bank interviewees described their expectations that the existence of such key institutions prevented banks

from having to worry about appropriation problems when selecting counterparties, as the next quotation indicates:

When we review the credit lines, we consider whether or not we will lend to systemically important banks. Governments will not allow systemically important banks to go under. (Head of Treasury, Bank A)

During the GFC, several key institutions provided guarantees and safety nets to domestic banks in Sweden. As reported by Nygren (2010), the National Debt Office provided Bank A and several other financial institutions with guarantees popularly called “bail-outs” during the GFC. According to the interview with the General Counsel of the National Debt Office, the budget of the Swedish government rescue programme of guarantees was set to EUR 50 billion. The programme explicitly targeted banks characterized as “too big to fail” (Ratnovski, 2009). The programme also included some minor and not systemically important banks because, as noted by the Bank Analyst at the International Rating Agency, it was important that the Swedish government demonstrate that it was in a position to rescue the country’s financial system as a whole.

Moreover, as reported by Strömberg (2011), the Riksbank provided short-term loans to troubled banks to help them locate counterparties for settlements and/or price-efficient liquidity allocations, and between September 2008 and September 2010, the Riksbank made EUR 25–35 billion available to designated banks in need of funding. The safety nets provided by the Riksbank were seen as critical to alleviating cooperation problems between counterparties:

The central bank functions as the lender of last resort. A solvent bank can count on additional lending facilities from the central bank. Hence, other banks are not supposed to become cautious ... and [will] continue to lend to one other. (Head of Treasury, Bank A)

However, there were several accounts of negative expectations regarding the bail-outs. As the following comment reveals, there was some fear that the activation of bail-outs would be detrimental to lenders’ and creditors’, though not depositors’, interests:

Then the bail-outs will be used in different ways. In Sweden, the government announced that all depositors, everyone who had placed money in these banks, would have state protection. You can choose to protect the private clients’ deposits. However, if financial institutions hold bonds issued by a troubled bank, then the financial institutions are on their own. (Vice-President of International Banking, Bank B)

Because the interbank market is also an international market, several other examples of negative expectations were found through the data analysis. The bank interviewees were suspicious of the ability of certain governments and political authorities to implement the bail-outs. Government priorities and political manoeuvres may become intertwined before a bail-out:

If you consider the political risk and the default risk [of a bank] in Russia, these two follow each other closely. (Manager, Credit Analyst Team, Bank A)

Given that key institutions may be in a position to bail out banks, this quotation indicates that, regardless of how powerful a key institution, such as a government, is, the room for agency it leaves is even more important than the creditors’ positive expectations of a given bail-out.

Moreover, the bank interviewees said that when governments refer to possible bail-outs, counterparties form their expectations by being attentive to the political authorities who may affect the bail-outs, as an element of randomness in implementation may be involved:

President Bush, for example, was recognizable in dealings with Bear Stearns and with Lehman Brothers. They were similar cases but [received] different treatments. (Director of Commercial Credits, Bank A)

The Bush administration facilitated the takeover of Bear Stearns but sanctioned the default of Lehman Brothers.

The bank interviewees commented that they also had to use performance-control processes for counterparties that received bail-outs. These processes included forming negative expectations about the financial condition of these counterparties, for example, by being suspicious:

We think that banks that have had dealings with the central banks are badly managed. They [i.e. the bail-outs] send a negative signal. (Director of Commercial Credits, Bank A)

As the bank interviewees presented their cost-benefit analyses, they also commented that a rescued bank, even before a bail-out, may be financially weak in terms of inadequate capitalization, low return on equity, and high numbers of non-performing loans. Such rational estimates of trustworthiness displace trust, exemplifying how negative expectations can be necessary for monitoring performance levels.

“Clan-related” banks

The interviewees at both case-study banks stated that, in addition to the guaranteed banks, another employed partner-selection criterion used during the GFC was that banks be “clan related”. Such banks were called “the core team” as one commentator said:

In a crisis situation, one needs a number of banks [operating] in various currencies ... in different markets ... the core team. (Vice-President of Public Relations, Bank B)

As illustrated by the next quotation, these clan-related banks are mostly regionally based:

In the USA, banks start within the county, then the region, and then the state. Then there is the federal level. Maybe then they begin entering the international markets. (Client Manager of International Banks, Bank B)

Throughout this journey, the counterparties gain relevant network experience, which was another selection criteria emphasizing trust. As can be seen from the next quotation, new entrants have limited access to the core team:

The core team ... we have worked with them for a long time and know them well ... It could also be the case that a bank had helped us during previous financial crises. (Vice-President of International Banking, Bank B)

In addition, a core-team bank can be identified with reference to benevolence in the relationship history and to the existence of a reciprocity account.

Moreover, the interviewees suggested that a core-team bank is identifiable by its ability to participate in joint problem solving and to display reciprocal behaviour, as the next comment illustrates:

The banks in the Middle East, for instance, had many assets that were worth nothing because they had acquired them from US banks ... And this, I believe, was because their networks were so opaque. When US banks encounter problems, they call their friends and say, "Take this and sell it on the market". If the Middle Eastern banks could not do that, then a lot of deals would have been stalled. So the Middle Eastern banks felt obligated. They think they encourage confidence if they can purchase and resell. (Client Manager of International Banks, Bank B)

The bank interviewees referred to several trust-based procedures relevant to clan-related banks. One basic procedure involves monitoring the regularity of/deviations from known interaction patterns:

It is about looking at patterns, at how the banks behave. What are they doing in the market? How are they funded? Are they changing their behaviour patterns? Are they doing something today that they were not doing yesterday? What do we see? (Market Risk Analyst, Bank A)

Another, more complex procedure involves making sure that a core-team bank accepts the required dependency as well as vulnerability. The interviewees stated that displaying this acceptance is necessary to avoid accusations of excessive risk aversion and lack of goodwill. This acceptance can be displayed in several ways. For example, clan-related banks ought to hesitate to suspend transactions when another bank in the core team shows signs of weakness. The parties suspending the transactions will face negative sanctioning from the other clan-related banks that displaces trust:

This is what I call mutual self-censorship. If you have had a long relationship with a bank, then you must be certain before you cut the [credit] lines. Otherwise, you will endanger the relationship. (Head of Treasury, Bank A)

Accordingly, counterparties avoid imposing negative sanctions as far as possible. As one interviewee pointed out:

The bank that has been exposed to a reduced transaction has nothing to gain if it reduces the transactions of its counterparties in reaction. One makes no friends by acting that way. (Vice-President of Public Relations, Bank B)

To safeguard the dependency and vulnerability inherent in these banking relationships, clan-related banks are required to accept a high degree of discipline and to avoid misjudging relationships. The banks also need to evaluate the advantages and disadvantages of both executing and not executing transactions in the interbank market. However, such evaluations rarely involve calculations, as the next statement indicates:

The difficulty in all this is that you cannot just call and put everything up for sale. Because people will wonder why you are leaving the ship. We will get it in the neck, even if this is what we need to do. Because we are in a network of banks, we have to choose what instruments to sell and at what pace. If you suddenly make a sale, it will definitely send a signal. Then the situation will be like [spreading] rings in the water. There it is a lot of diplomacy and clever gamesmanship going on. (Client Manager of International Banks, Bank B)

Yet another procedure is to use information-sharing practices that draw on relational trust. As the next statement indicates, smooth information sharing is essential among clan-related banks:

It is all about having good and ongoing contacts. Give them [i.e. the counterparties] a lot of information. Keep them updated about things so they can feel comfortable with us. (Vice Director of Treasury, Bank A)

Despite the general impression of secrecy in the banking industry, the bank representatives seemed to value the sharing of various kinds of information directly with fellow clan-related banks, including access to credit information and trading books.

Interactive communication is another common feature of these interbank practices. According to the bank interviewees, interactive communication requires personal interactions with the counterparty and provides opportunities to obtain information. The information shared may include reflections on ongoing events from individuals acting on behalf of the counterparty, as well as information that is not otherwise public. Interactive communication also provides opportunities to obtain information subtly, as the next two quotations from the two case study banks indicate:

The one thing that I have learned in my many years as a banker is that the character analysis of the borrower is immensely critical ... knowing whom you are dealing with, knowing how they will react, and knowing what actions they will take in different situations. That is completely determinative, without a doubt. (Director of Commercial Credits, Bank A)

The overnight transactions are governed a great deal by psychology and by the confidence acquired in phone calls with the traders. (Debt Investor Relationship Manager 2, Bank B)

Information sharing, however, is not equally available to all counterparties. As one top manager indicated, there are variations among the counterparties that are worth considering:

The closer you get to your home market, the worse it gets. It is easier to call a bank in another country than a neighbouring bank [i.e. a direct competitor]. (Director of Commercial Credits, Bank A)

Discussion

This section discusses the findings and presents the aspects of trust derived from examining interbank practices and found relevant to dealing with control problems and managing risk in the interbank market in a crisis. Table I, columns 1 and 2, respectively present the control problems (i.e. appropriation and cooperation problems) addressed here (see Caglio and Dittillo, 2008) and risk in terms of opportunistic behaviour and poor performance (see Das and Tang, 2001). Column 3 presents the two identified selection criteria and column 4 the findings regarding performance-control processes.

Table I. Control problems, risk, and the use of trust in interbank market practices

1 Control problems	2 Risk	Interbank market practices	
		3 Selection criteria	4 Performance-control processes
Appropriation problems	Opportunistic behaviour	Guaranteed banks, i.e. banks given special status by key institutions	Validating institutional trust by activating negative expectations
Cooperation Problems	Poor performance	Clan-related banks, i.e. network-related counterparties	Validating relational trust by monitoring reciprocity, goodwill, and information sharing

The use of guaranteed banks (see column 3) can be interpreted as a trust-based selection criterion, when the case-study banks shortlisted their counterparties during the GFC. The findings indicate the existence of several key institutions, such as the National Debt Office and the Riksbank, that operate in the context of the banking industry. During the GFC, these key institutions offered various forms of “guarantees and safety nets” (see Mineev, 2014) that improved counterparty performance in terms of continued and price-efficient access to money and reduced risk of liquidity shortages. The existence of key institutions is associated with institutional trust (cf. Zucker, 1986), and the guarantees and safety nets that they provided were associated with positive expectations because they alleviated concerns regarding appropriation and cooperation problems.

As shown in column 4, in a crisis, several forms of negative expectations can appear that are important performance-control processes for managing risk in relationships with guaranteed banks and key institutions. First, the existence of guarantees and safety nets was found to require the activation of negative expectations. As was found, guarantees and safety nets can depend on the agency of governments or on socially embedded factors, such as the link between the default risk of Russian banks and Russian politicians. In certain ways, this example of negative expectations suggests that fear was used to evaluate how past irregularities may reappear. Second, the findings indicated that guarantees and safety nets as “solutions” to appropriation problems can also be expected to entitle third parties, such as depositors, meaning that the expected benevolence associated with guarantees and safety nets may be interpreted as malevolence by transacting counterparties (i.e. creditors or banks). Third, bail-out implementation was found to require another form of negative expectations. The occasionally random implementation of bail-outs, for example, the rescue of Bear Stearns versus the abandonment of Lehman Brothers, directed attention to what counterparties did and did not enjoy guarantees and safety nets provided by their governments. In this case, banks were vigilant in assessing the character of individuals representing governments, such as President Bush,

who influenced the implementation of the government guarantee programme in the USA (cf. Sitkin and Roth, 1993; van der Meer-Kooistra and Scapens, 2008; Zucker, 1986). Möllering (2005) claims that when an actor uses its agency benevolently, one should ask how much latitude for agency it actually leaves behind, regardless of how powerful the actor might be.

The use of clan-related banks (see column 3) is interpreted as another major trust-based selection criterion with which the case-study banks shortlisted their counterparties during the GFC. The findings regarding the core-team banks indicate the existence of collaborative relationships and “clans” in the banking industry (cf. Ouchi, 1980). To consider a counterparty to be a member of the core team, parties require network experience, long-term relationships (cf. Powell *et al.*, 1996; Seal and Vincent-Jones, 1997), and the absence of “opportunism” (see Ouchi, 1980) as conditions for maintaining relationships. The findings also indicated that the case-study banks considered a prospective counterparty to be a core-team bank based on its “benevolence” (see Fink *et al.*, 2010) as experienced in the “relationship history” (see Free, 2008).

For clan-related banks, column 4 presents the findings regarding performance-control processes, interpreted as drawing on “relational trust” (see Barbalet, 2009). For the case-study banks, the existence of goodwill among core-team banks (see “good partner”: Dekker, 2004) alleviated concerns regarding appropriation. It was also found that, in the core team, submission to “powerful actors” (see Cäker, 2008) and “thoughtfulness regarding transactions” (see Ouchi, 1980) are required, despite the possibility of appropriation, to avoid negative sanctioning in light of the ongoing need for reciprocal behaviour (see Gouldner, 1960). In addition, the findings identified particular information-sharing practices (cf. open-book accounting: Mouritsen *et al.*, 2001) that alleviate the cooperation problem. These practices seem to have self-regulating effects on parties in terms of “setting expectations of interaction patterns” (see Dekker, 2004) and providing up-to-date information that can facilitate “agility” (Burns, 2016) in response to emerging events. Moreover, the examples of information-sharing practices illustrate how relational trust was used to confirm the counterparties’ promises of “contract execution” (see van der Meer-Kooistra and Vosselman, 2000).

It could be said that the identified bases of trust may represent just two ways of managing risk. However, this examination of the use of trust in risk management has not attempted to identify the “best” basis of trust: in practice, there is a sense of practicality that permits practitioners to alternate and combine bases of trust. For a better understanding of practice, it should be noted that practitioners ultimately appreciate the base or bases of trust that represent good reasons. This analysis of practitioners’ crisis-contingent attitudes and behaviours uncovered a hermeneutic quality of human experiences that hinders the identification of definitive models but requires that practitioners “uncover” reality for themselves.

Conclusion

This study examines interbank market practices during the GFC. In particular, it targets these practices in two banks and how they used trust in addressing control problems and managing risk. The main finding is that, during the GFC, the case-study banks selected two types of counterparties, guaranteed banks and clan-related banks, by drawing on two bases of trust, and used several trust-based processes for monitoring these selected counterparties' performance levels.

Related to institutional trust, the findings regarding guaranteed banks include several examples of guarantees and safety nets found to be interlinked with positive expectations that alleviated concerns regarding appropriation and cooperation problems. The paper presents several forms of negative expectations about the performance of key institutions offering bail-outs and of the banks receiving them, expectations used to evaluate and monitor performance levels. The rationale for including both the positive and negative expectations regarding guarantees and safety nets in the findings is that banks are affected by both the "direct and indirect effects" (see Tomkins, 2001) of institutional trust. In line with Barbalet's (2009) argument, any account of trust must address both its positive and negative sides.

Moreover, in their literature review, Baldvinsdottir *et al.* (2011) noted that the interbank markets only function when guaranteed by governments. However, what we did not learn from that review is that both positive and negative expectations interact in the provision of guarantees and safety nets (see Lindenberg, 2000; Möllering, 2005). However, the full extent of the connection between guarantees and safety nets, on one hand, and positive and negative expectations, on the other, is difficult to demonstrate. The existence of a dynamic between positive and negative expectations implies that a naïve belief that governments will rescue banks indicates weak inductive knowledge and may not properly be considered trust (see Simmel, 1990). The understanding of this dynamic could offer the accounting and management control literature more detailed insight into the "formation of institutional trust" (see van der Meer-Kooistra and Scapens, 2008; Zucker, 1986). It could accordingly be suspected that the reliance on institutional trust in other industrial settings may rest on an incomplete and imprecise understanding (see Giddens, 1990).

This paper contributes to the understanding that relational trust was also critical for alleviating appropriation and cooperation problems in the interbank market during the GFC. The findings regarding clan-related banks included several examples of trust-based partner-selection criteria such as "network experience" (see Seal and Vincent-Jones, 1997) and "joint problem solving" (see Uzzi, 1997). Previously, Ding *et al.* (2013) found that firms may rely more strongly on trust-based partner-selection criteria when confronted with greater uncertainty. In relation to performance-control processes, trust was used as an "operating logic" (see Mouritsen and Thrane, 2006) for resolving the experienced control problems. In the complex array of relationships with clan-related banks, "reciprocal behaviours" (see Gouldner, 1960), "goodwill" (see Dekker, 2004), and "information sharing" (see Mouritsen *et al.*, 2001) were emphasized as critical performance-control processes. The use of relational trust has been observed in several industries, such as the airline industry (Neumann, 2010). Relative to many industries, the banking and airline industries both face high entry barriers and ongoing supervision by the related regulatory and supervisory authorities. Consequently, the reliance on relational trust may not be immediately noticeable by researchers because the reliance on management accounting systems that exploit rational predictions is emphasized.

In addition, the two case-study banks applied trust in a similar way, as indicated by how top management at the studied banks personally participated in determining the trust-based partner-selection and performance-control processes. Previously, Ding *et al.* (2010) concluded that when it came to collaborative relationships, direct personal involvement was more likely among managers in small firms and among managers at lower organizational levels in larger firms.

Admittedly, this study suffers from certain limitations. Due to limited research access, the data were collected only at selected banks with no distinctions made as to counterparties. The bank interviewees did not wish to discuss particular types of transactions or specific interbank counterparties. Moreover, the paper illustrates diverse crisis-contingent attitudes and behaviours that may not be observable during normal times. The findings in this paper are based on a kind of rationality of trust promoted by key institutions and “clans” in the banking industry. In the unfolding of events during the GFC, banks were forced to rely on such bases of trust although their combined effects might have been insufficient to manage every risk confronted in the interbank market. The institutional basis of trust was interpreted as the product of the positive expectations of order engendered by the government and central bank guarantees and safety nets, and of the negative expectations derived from the bankers’ personal assessments of these measures. These bankers were not in a position to know in advance what potential counterparties to trust, because trust is not a resource that can be exhausted through its use and/or saved for future use (see Barbalet, 2009). In particular, the lack of trust inherent in negative expectations relates to the eventuality of the interventionist government programmes during the GFC. Moreover, reliance on the relational trust provided by clan-related banks was not a matter of pertinent knowledge, but of the rationality of actions and what Jönsson (2014) calls appropriate banker behaviour. According to Luhmann (1979), “trust is indispensable in order to increase a social system’s potential for action” (p. 88).

To improve our understanding of IORs, future research could replace the present paper’s static view of the direct influence of a crisis on the choice of controls with more complex approaches, such as longitudinal studies that observe these issues over time. Moreover, it can be assumed that governments in Sweden and elsewhere offered rescues in exchange for extensive contracts and accounting-based controls. Future studies could investigate the value of such controls for trust-building in IORs and the altering of incentives for opportunistic behaviour. Furthermore, by its focus on the infrastructure of money supply in the banking industry, the present paper has paved the way for future IOR studies that treat money as a critical raw material (cf. Håkansson and Olsen, 2015). The present study of interbank practices in a crisis tells a different story about risk management in IORs from that of Anderson *et al.* (2014). They studied the use of a specific risk management framework when controlling several risk categories regarding their examined IORs. Future researchers could take into consideration that the use of similar types of frameworks has, as Mikes (2009) noted, become more extensive in the banking industry and potentially an inevitable component of risk management in IORs.

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Appendix – Interviews

Interviewee count	Interviewee job title	Date of interviews	Start and finish times of interviews	Organization
1	Director of Commercial Credits	2010-06-09	14:00-14:46	Bank A
2	Head of Audit	2010-06-09	16:30-17:30	Bank A
3	Head of Treasury	2010-06-10	10:30-11:33	Bank A
4	Vice Director of Treasury	2010-06-10	14:00-14:56	Bank A
5	Chief Risk Officer	2010-06-11	11:00-12:04	Bank A
6	Project Manager of Basel II	2010-06-14	11:00-12:00	Bank A
7	Credit Risk Control Analyst	2010-06-14	14:00:15:45	Bank A
8	Manager, Credit Risk Control	2010-06-15	16:00-16:54	Bank A
9	Manager, Portfolio Analyses	2010-06-16	10:00:10:59	Bank A
10	Vice-President of Public Relations	2010-08-16	13:00-14:10	Bank B
11	Vice-President of International Business	2010-08-18	16:00-17:40	Bank B
12	Manager, Credit Risk Control	2010-08-16	09:30-10:31	Bank B
13	Market Risk Analyst	2010-08-17	11:00-12:03	Bank A
14	Head of Treasury	2010-08-17	13:00-13:53	Bank B
15	Vice-President of Treasury	2010-08-17	13:00-13:53	Bank B
16	Client Manager of International Banks	2010-08-18	14:00-15:15	Bank B
17	Vice-President of Finance	2010-08-18	09:00-10:40	Bank B
18	Manager, Credit Analyst Team	2010-08-19	16:00-17:03	Bank A
19	Vice-President of Credits	2010-08-20	13:00-14:28	Bank B
20	Head of Audit	2010-08-20	09:30-10:53	Bank B
21	Head of Group Risk Control	2010-08-24	13:00-14:25	Bank B
22	Head of Market Risk	2010-08-24	09:30-10:34	Bank B
23	Liquidity Risk Specialist	2010-08-26	13:00-13:57	Bank B
24	Head of Market Risk Control	2010-08-27	14:00-15:16	Bank B
25	Trader	2010-08-27	09:30-10:21	Bank B
26	Bank Analyst	2010-11-07	14:00-15:06	Credit Rating Agency
27	Debt Investor Relationship Manager 1	2010-11-11	09:30-10:22	Bank B
28	Debt Investor Relationship Manager 2	2010-11-11	09:30-10:22	Bank B
29	General Counsel	2011-06-28	14:00-14:58	National Debt Office