

CASE ANALYSIS 1

Vinaysingh Chawan

National Bank (NB) is undergoing a massive transformation process owing to changes in its competitive landscape. The case describes efforts of NB in implementing a new organisational structure and reengineering the related processes. The resistance within the organisation, whilst adapting to the new structure, has raised doubts about the suitability of the new structure for the bank.

NB started with a focus on agricultural loans and trade financing in undivided Punjab during the British rule and subsequently expanded its network. When economic liberalisation and banking deregulations allowed private banks and players from the non-banking sectors to enter the banking business, NB reacted to the competitive situation by opting to focus on retail lending business and scaling up of operations. In the process, it accumulated NPA as a consequence of the pressure to perform and fulfil allocated targets. To overcome the problem, NB looked at some of its successful competitors and chose to imitate their business aspects partly. This resulted in back office centralisation, CBS implementation, and adoption of a Hub and Spoke setup for lending business.

The traditional loan disbursement process involved a high degree of customer interaction and was labour intensive. The credit worthiness of customers was established at the discretion of the loan officer, who was responsible for all approved loans. It was a subjective people-dependent system, which was error prone due to employee prejudices in credit scoring. Moreover, the processes were not scalable. NB decided to move towards an objective process-oriented system. The existing loan approval processes were reengineered and implemented through a new Hub and Spoke organisational structure. The new processes, because of their objective nature, were able to eliminate employee prejudice from the loan decisions, but led to loss of job satisfaction amongst loan officers. Some drawbacks of the new processes were rigidity and lack of focus on knowledge acquisition processes. Traditionally, loan officers used their experience for credit rating, but the new system had no processes to learn from this experience. This resulted in lesser job satisfaction amongst employees. The problems arising due to inappropriate processes were attributed to the maligned Hub and Spoke structure.

1. Redesigning some Processes

NB needs to monitor and fine-tune the processes to suit the new structure. There is a need for the organisation to acquire and retain the knowledge gained by the front line staff at the Spoke. This will lead to more organisational learning, and front line staff will also get job satisfaction from such activities. Information needs to be shared freely across the organisation, and the decision-making process needs to take in subjective information provided by the employees at the Spoke. Then the Hub can implement objective decision-making processes. The decision-making process needs to give adequate weight to the opinions of employees at the Hub and the Spoke.

2. Risk Management System

NB needs a risk monitoring system, through which it will be able to track its exposure to individual customers, and also in aggregate to various segments across its branches. This system will help in setting control limits and targets for various branches. This information can also be used to develop customised banking products for individual customers and customer segments.

3. Employee Orientation

The need for the new organisational structure and the rationale behind it should be communicated to all staff. Co-operation between the Hub and the Spoke needs to be ensured by sharing decision-making power and responsibility amongst them.

4. Human Resource and Training

If NB wants to evolve as a net-centric bank, employees need to be trained in IT and latest banking technology. Current staff may be trained for the immediate requirements, but in the long run, the bank has to go for new recruitment to bring in required talent.

Author's Profile

Vinaysingh Chawan

Vinaysingh Chawan is a faculty in the area of operations management and quantitative techniques at Indian Institute of Management Indore. His research interests include Mathematical Modelling, Simulation, MIS, DBMS, and Auctions and Revenue Management.