CASE ANALYSIS 3

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Abstract: In this case analysis, the first section discusses on the context, diagnosis and responses related to the case. In the second section, the analysis of the case is presented. Third section discusses various insights extracted from the case.

1. Context, Diagnosis and Response

1.1 *About the NB*

NB is a very old and national-level commercial bank of repute. The bank has been spread across the country with a huge customer base (i.e. 38 million). Large and dispersed shareholders control it with professionalism in management. It started its business focusing on trade financing and agricultural loans. With respect to performance, gross and net NPA are lower than the average for nationalised banks in India and its priority sector credit to ANBC and agricultural credit to ANBC are higher than that of national goals (Appendix A1). Its system structure and processes are very old and have evolved over a period of time.

1.2 *NB's move in the changing environment and new challenges*

Due to economic liberalisation and banking deregulations in India, the competition scenario changed. Banking industry witnessed entry of new players with a wide range of product and services. Banks started competing on scale, scope and experience of services. Some of the government regulations helped non-nationalised private banks in performing better compared with the nationalised banks. Private banks, due to their early adoption of contemporary technology and IT strategy, are in a comfortable position within the new rules of competition.

In order to cope up with the changing environment, NB tried to change its image of a legacy bank with colonial economic priorities to a modern bank with national endeavour. NB changed its focus from rural and semi-urban area to retail (home loan and car loan businesses etc.) segment, a rapidly increasing business area. It has reconfigured and extended its business into areas such as personal, social, business sector and corporate banking taking the benefits of technology.

Due to the nature and complexity of business NB discovered that its net NPA is increasing. Also, the number of defaulters and irregularities is increasing. NB realised that traditional model would be extremely difficult to sustain when demand becomes high, that is, when its retail-banking segment expands and dedicated workforces to designated routines are not available.

1.3 *Addressing the new challenge*

In order to address the new challenge of competition, NB implemented the following strategies.

- New IT Strategy: As part of the strategy, NB computerised all the branches. It implemented centralised back office, core-banking system, anytime anywhere banking,

Internet banking, utility banking and an integrated risk management system. Business processes were made net-centric.

- New Structure: During the middle of the decade NB created a structure for its lending retail business by introducing established Hub and Spoke model. Accordingly it reengineered its lending retail loan process radically. As part of this structuring and redesigning, NB reduced its four-tier structure to three-tier.

The impact and implications of changed business process can be analysed from the comparison given in Table 1 below:

Table 1: Comparison between old process and new Hub and Spoke model-based process

Traditional Business Process	New Process based on Retail Hub and Spoke Structure
Limited number of service channels	Multiple channels of service deliveries
Not having a dedicated structure for lending and disbursal of retail loans	Dedicated structure to support expansion in retail banking segment
Non-standardised, decentralised loan processing	Standardised, centralised loan processing
No marketing activities at branch level	Customer are acquired by marketing team employed in individual branch
Loan application processing and decision of loan sanction both were done at branch level	Individual branch (Spoke) collects and verifies applications and then Hub processes it with RBL score checking software. Eligibility test for loan and credit worthiness is done by Hub.
Sanctioning authority in branch is in direct contact with the applicant in the process of decision-making	Appraising officers at the Hub do not have direct contact with loan applicant
Decision on credit worthiness is based on personal judgment and past experiences	Database oriented, process-based, system-oriented, objective-oriented (through input data and scoring software having well defined logic)
Loan sanctioning and disbursement at branch level. The process is non-iterative and discontinuous	Loan sanctioning at Hub; disbursement at branch. The process is iterative and continuous.
Branch office decides and disburses loan	Branch office disburses the loan. The decision on loan sanctions done at Hub level
Sanctioning authority exposed to risk	As system driven, no one is exposed to risk

2. Analysis

2.1 *Strategies and structure*

IT Strategy: By copying the business model as well as Hub and Spoke model from other competitors, NB implemented its new strategy for survival and growth with IT as a major enabler. NB, a late adopter of IT, just followed the IT adopted by others. Just by adopting technology one organisation cannot get competitive advantage over others. But, by not having appropriate IT in place, it is difficult for the organisation to survive. IT has become a commodity and ubiquitous. On the other hand, it increases the risk - the risk of becoming obsolete, risk of failure and risk of being copied. In order to get a competitive advantage considering IT a pivotal role, the organisation must select the appropriate IT, reengineer its business processes and align its business processes and IT to the organisation's overall strategy. Besides that it must have a proper business model in place that continuously innovates. Huge and established organisations, which are late adopters of IT, face many challenges in leveraging IT.

NB took a right decision by implementing the new IT strategy. Its business model required such type of IT infrastructure and strategy. The IT strategy would enable the operations scalable, faster and automated. It helps in avoiding personal prejudice, biases, gut filling and so on. of decision makers that may lead to inefficiency.

Structure and process change: The redesigning of lending retail loan (retail banking) business process, which was radical, might have taken less time but implementing a radical redesign will take a very long time. After introducing the structure and Hub and Spoke model, the followings are observed:

- The overall performance of NB has increased, which is evident from the following facts:

  o   NPA reduced in 2009 over past 2 years

  o   Return on assets increased except in 2005

  o   Percentage NPA to net advance has been decreased

  o   Both interest income and non-interest income have increased

- No allegations of irregularities and malpractices on both loan sanctioning and disbursing managers

- Loan application processing is system driven and objective oriented. As this leads to reduce risk exposure, 50% of the bank officials welcome the change. They are happy after its implementation.

- Due to centralisation of customer information, both branch level and Hub level can access customer information. Sub-processes need not be sequential. The model helps in doing parallel activities.

Implementation of the model resulted in mixed responses. Although it is observed that the performance has improved, it is not clear from the case whether the same is contributed by the Hub and Spoke model. It is a challenge to find out how much the model contributes.

2.2 *Major issues identified*

The following issues of NB are identified in terms of operations, policies, technologies, procedures, work culture and business target in its transition phase:

HR issues: The following human resource (HR) issues are identified:

- Bank is overloaded with staff but short of right staff.

- Managers are stressed out.

- Appropriate incentives and rewards system are not implemented after reengineering the business process.

- Average age of the employee is 40 to 45 years. These employees may not be IT savvy. In addition to this, the bank has not done any recruitment for quite some time.

- Lack of good training. As the employees are not IT savvy, and the bank has adopted IT-enabled expansion, training employees is highly essential. The bank does not provide good training.

- Senior managers are dissatisfied as their 'subjective decision-making' is not required. They get the job satisfaction out of it. Due to the new model, the job satisfaction is lost.

- Relation and co-operation between people at Hub level and Spoke level seem to be unsatisfactory. This may be due to layer, structure and mindset.

- Branch-level officials feel embarrassed and dissatisfied when the applications forwarded by them are rejected.

- Half of the managers of executive cadre of the bank are not happy on the utility of Hub and Spoke model in spite of good results.

- Majority of the bank employees are from a specific region that understand and have good business intelligence about their people who are mostly NB customers. Senior bank managers have apprehensions regarding loss of valuable customers, loss of informal business intelligence collected at field level, degradation of brand image and relationship, poor quality of staff at Hub level and misuse of credit rating due to this model. Senior bank managers' apprehension about the leadership and continuity of the model are based on past trends.

When a structure is created and process is changed in an old and established organisation like NB, different types of cultural and HR issues arise as expected. These issues need to be addressed over a period of time.

Cultural issues: The following cultural issues are identified.

- Although NB has implemented IT, its use is not proper. Major time (3 months) of a year is spent on preparing hard copy reports for compliance. People prefer hard copies to soft copies. Managers are having functional mindset and are not taking advantage of the technology fully.

- Operating culture is not conducive and aligned to IT strategy, which may be due to the profile of the current employees.

- Top management's legacy association with a particular region is influenced by that regional culture. The bank business was dominated by regional culture. Recently it has been changed because the then Chairman is not from that region.

3. Insights

- The competitive landscape for NB has been changed. In order to compete, NB must increase its efficiency that leads to scalable operations. If processes are standardised, then automation of the same can happen. Automation would bring more efficiency. NB tried to standardise the process by creating an organisation structure in it. The new structure does not consider manager's judgment and personal experiences in decision-making. So senior manager's gut filling and their specific business intelligence about customers are not given any importance in this structure. This initiative hurts ego of senior employees as expected. On the other hand, the model helps the operations scalable.

- Senior bank managers' apprehensions are not reflected in the financial performance. This may be due to removal of one layer in the structure.

- One of the critical success factors of process re-engineering is establishing appropriate incentive and reward systems. The top management must implement this after reengineering. As the model takes a top-down approach, commitment from top management is also one of the critical success factors of process reengineering.

- Reengineering a business process needs new skill sets. Appropriate training must be provided.

- Reengineering requires enforcement of performance measurement. Performance measurement criteria and procedures need to be enforced at both Hub and Spoke level. Business process needs to be modified to capture product- and bank-specific business intelligence at various sources.

- The bank needs to recruit young employees. This will improve the operating culture and employees would be more IT savvy.

- Due to the problem of hierarchy, the suggestions regarding the sharing of responsibility and experiences both by Hub and by Spoke may not work. It is very difficult to arrive at a consensus.

- Earlier banks were person driven and that does not help in scalability. Hub and Spoke model is around a system-driven responsibility that helps in scalability. As systems and procedures are important in this model, nobody has responsibility. Decisions are based on data and risk management rating software.

- Organisation culture is very important for survival and growth of the company - to adopt changes in the environment/organisation.

- Regarding misuse of credit rating of NB (as stated by some officials) this can be addressed at organisation-industry-government level.

- Branch-level people should not commit anything to the loan applicant.

- IT is considered an enabler and implementer. If it is not aligned to the organisation's overall strategy, implementing IT will not provide any added advantage to the organisation. In this case, NB has changed its process radically in order to increase the bank's customer base significantly and at the same time reduce NPA. In order to implement this radical redesign with the help of IT, NB has made changes in structure, and work culture, policies. In this situation, people resist change for various reasons.

- Sustainability of the model: NB should implement change management. Whenever organisations change the most important business process of the organisation, people resist change for variety of reasons. Proper incentive and reward systems, and communication systems, need to be implemented. Good HR practices specific to NB should be adopted. Various culture-related issues need to be addressed.

- In spite of the fact that managers are having experiences and business intelligence about loan applicants, the NPA has increased. Hence, senior manager's apprehensions are not supported by data. On the other hand, NB is expanding its business, changing its segments and increasing its spread. They should not limit their core strength only to traditional/semi-urban region-specific customers. They need to upgrade their skills and change their mindset. NB's culture needs to be realigned to Hub and Spoke model and should be consistent. This would help NB to reduced NPA dramatically.

- Although there are lots of issues, NB is surviving and doing well. This may be due to Hub and Spoke model. If the issues mentioned above are addressed, and people become IT savvy, NB can do better.

Author's Profile

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