ROLES OF STRATEGY AND STRUCTURE IN THE DEEMED FAILURE OF A BPR PROJECT IN A LARGE INDIAN BANK

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Abstract

A large Indian public sector bank, 'B', undertook BPR while under transition to liberalization. It has a large branch-based structure to acquire local savings where banking processes add little value. Value is added at the head office through bank-based financial operations and through providing credit to industry. 'B' faced a transitional dilemma: BPR implies retaining only value-adding processes and deleting non-value adding processes. Regulatory guidelines and structural considerations would not allow this bank to implement a big-bang BPR. Yet appreciating that competition was sharpening in the value-processes with the entry of new global and private entrant banks, two successive chairmen and a few senior managers initiated change management by engaging an international consultant. The consultant failed to appreciate the wealth of knowledge grass root banking had provided. The chairmen and the team of managers, however, could not choose from out of structure, business process, strategy and technology – what was the driver of change and in what sequence of change could the best outcome be secured!

Negotiations on change management between the stakeholders and the consultant resulted into tacit opportunistic alliance. Enthusiast managers through self-taught understanding on BPR offered certain novel solutions to change. ‘B’s information system and the IT (ISIT) infrastructure was far inferior to contemporary global standards. In parallel to a complex process of change ‘B’s ISIT system too was revamped. By strict definition BPR failed because processes remained unrecognized and technology instead of hastening change turned out to be a new instrument of monitoring. Yet through broad vision and from hindsight it appears that ‘B’ could implement major changes in the strategy, structure, processes and technology. Driver of change often appeared to be the culture of change management. Performance of ‘B’ has steadily improved although it has miles to go to attain the status of benchmark.

(words: 298)

Introduction

Business process reengineering (BPR) identifies business processes that can add value (Kim, 1994). Theorists of structure implicate the structure of a business and propose its reorientation (Venkataraman, 1994). Both these theories began with implementing changes in the manufacturing organizations of a few countries from the developed world. Over the years these change initiatives incorporated further advancements from theories of strategic values, core competencies and technological knowledge (Slywotzky, 1996). However, these proposed frameworks of change initiatives failed to incorporate organizational complexities prevailing in

most large knowledge-based services organizations, especially those from developing countries who inter alias support developmental goals in those societies.

This paper is based upon a study of an actual case of transformation of a large Indian public sector bank, called ‘B’. A real transformation offered us the scope to examine applicability of frameworks of BPR and of the structural theorists. Moreover, complexity of a large and diffused structure and the business processes interlaid and the fact that ‘B’ remained impregnated with prevailing business culture, could in a definitive manner swerve the originally conceived BPR project to an indefinite and yet very successfully managed transformation. This fact of successful transformation cannot be described as either a BPR or a reorientation of structure alone. Changes in ‘B’ implicated culture, technology and people.

Environment and the bank

Structure, business processes and management systems of ‘B’, similar to other nationalized banks, evolved under the controls by several machinery of the government. Since 1991, system of controls over banks and over ‘B’ began weakening. ‘B’ too began preparing itself for managing the change. Set up in Mumbai about hundred years back ‘B’ has remained in the forefront of innovations. With nearly 2500 branches it has a large network across cities and the countryside and compares very favorably with the best and the large banks of India. Structure of an Indian bank suffers from two types of constraints, first on credit management and second on branch-based competition. Typical branch structures are revealed if we consider that South India has out of total 53 branches (and 2 extension centers) 16 in metropolitan area, 14 in small urban, 5 in semi-urban and 18 in rural areas,

size distribution of which were 1 super-large, 4 very large, 6 large, 29 medium and 13 small. Number of loss making branches was 11 in 1994-95, 6 in 1995-96 and 6 in 1996-97. Such structural limits conditioned the strategies and culture of ‘B’.

Path-dependent structure and constraints on business

Regulatory structural constraints imposed limits and deformed business process. A bank competes with other banks or other financial agents through its branches reaching out to the customers. This can be called a branch-based, spatial, retail-customer centric competition. In contrast, a bank also competes for credit disbursal or for export or project-based businesses. This latter-type competition engages the head office or other select offices only, and does not involve the branches. This we define as the bank-based competition. It follows; these two types of competitions bring about a structural disjunction. A banking business process can be so defined as that can alleviate this problem of disjunction. Such a process integrates structures. Received literature has defined business process as that adds value. Branch-based processes as well as bank-based processes both add value, and if we follow the received definition a business process will fail to integrate structural discontinuities. With our definition of processes, however, structure and value both appear as the defining elements of a business process.

With branches in plenty and an average branch serving only 12,000 people (in 1990) yet burdened with a very large number of small deposit accounts the branch-based competition lost its credibility. ‘B’ has more than 12,00,000 of advance accounts (for credit) whose value is less than a meager Rs. 25,000, about 7,00,000 of advance accounts in the range of Rs. 25,000 to 200,000, and about 75,000 such

accounts above Rs. 200,000. Typically a branch serving retail customers, would receive deposits in three categories, savings constituting about 12% of total deposits, current (mainly for business) about the same, and term deposits about 75%. A typical branch would lend little of its deposits, if at all. Part of its fund would be lent through the zonal/regional special credit divisions and the rest would be transferred through a transfer price mechanism, to the head office, which while disburses credit to the profit-earning businesses, transfers a part of the profit to the region back. A region would in general disburse about 65% of its deposits as credit in its region, out of which only about 20% or about 12% of total deposits would get disbursed to the profit-earning businesses, the rest of credit goes to several weaker sections. As a result almost 90% of income of a region would flow from 'interest income' category, and only about 10% from non-interest income.

Dependence on interest income implies that the bank follows a retail branch-based strategy while priority of non-interest income implies a bank-based strategy. Branch-based strategy, however, cannot preclude the other altogether. A branch or a region thus in order to remain competitive and earn profit, remains limited to interest-income category and towards this goal it attempts to maximize the total deposit and a branch fails to implement strategies of the business organization. Skills set that thus get developed in a bank, and the regional/branch goals and strategies that is nurtured are for deposit mobilization.

Regulations prevented 'B' from specializing in specific areas of deposit mobilization or in credit disbursals or other forms of business such as merchant banking. Result was that inter-bank branch-based or intra-bank inter-branch

competition was hazy and the market had no knowledge of what special interests or special skilled-services they could expect from ‘B’. Regulation prevented ‘B’ from taking up universal banking or ‘Main-bank’ strategy and it deformed the branch based retail activities.

Structure of ‘B’ has been hierarchic and regional/spatial as well as functional. It has not been based on business processes. Incentive to an employee in ‘B’ has never been special pecuniary benefits; it has remained the promotions across a long chain of seniority. If the career movements are lost, as happened in some foreign banks with unenviable consequences (Scott & Walsham, 1999), incentive system breaks down. ‘B’ having little maneuverability in business options was also thus burdened with little scope to restructure its organizational structure through incentives-reengineering.

Preparing for change

It remained a puzzle to the senior managers as how to restructure the system of incentives in place. Personal initiatives of the middle level managers were to be unleashed since that appeared to be the best course for raising productivity/profitability. In 1995 then chairman of ‘B’ recognized that strategy, structure, culture had to be changed but for managing change, its sequence was most important. The question was: what was the driver of change and what sequence of transformation could bring best-desired outcome?

‘B’, typical of a nationalized bank, has been having its successive chairmen for an average period of one year to a maximum of two years. The board of ‘B’ too keeps changing its composition; senior managers of ‘B’ get regularly and often in

about a year's time, transferred to another position located perhaps in a distant place. Middle managers too have a similar fate. Incentives targeted to individual performance thus could not be designed in this system. A long and complex structure of rules, the latter having substituted individual predispositions with strict rule-following, defined the environment.

This first chairman conducted a SWOT analysis around 1995, results of what was shared with association of the officers and the union of the employees, who both soon became active agencies of transformation consisting of four aspects: transformation of organizational structure, introduction of novel organizational processes, restoration of financial health and, induction of customer orientation. Results were to appear soon, 'B' posted profits of Rs. 500 and 2760 millions in the following years of 1995 and 1996. The first chairman offered a vision of 'B', bypassed several rules, set himself and other super-performers as the 'role', set up performance bench-marking, identified and then nurtured talents inside the organization by way of providing them with rewards, challenging tasks and recognitions. Overall, he encouraged a culture of co-operational work, risk-taking, accountability especially to bank customers, customer satisfaction as the end result of performance, and an innovative attitude towards 'rules', which were to be interpreted anew.

This set the norm of recognizing new and novel banking processes through recognition of new interpretations on those rules. This was perhaps most glaring in personnel policies. 'B' has remained overstaffed. Per-employee business in a typical branch of 'B' and employee productivity at branch level began appreciating

1995 onwards. Total bank level productivity depends however, on several other modes of business. A rise in branch productivity can thus be directly attributed to compliance by bank staff to higher norms of productivity, while rise in such aspects as non-interest income to interest income for overall bank, is attributable more to restructuring and induction of new business processes.

By 1996 there was a new dynamic chairman with knowledge of BPR. Simple activities of novel interpretation of rules would not take 'B' far, and the second chairman thought of two alternative modes: incentives reengineering, or changing the culture of work. Reengineering of incentives amounting to declaring publicly a new set of rules regarding novel incentives might attract unwanted criticisms and even refusal (Milgrom & Roberts, 1992). Incentives should be part of the written code of rules and a reengineering of incentives would assume changes in the rules then. The second chairman thought of thus a culture, unwritten and formally unannounced, in which an employee could take risk or the employee towards achieving greater customer satisfaction could remodel rules. Culture relied more on 'roles' played up by individuals. A culture would encourage roles differentiation and betterment of roles on the one hand and on the other, a maximal alignment of individual with several roles.

The second chairman could appreciate knowledge gaps and incentive mismatches in his own organization. He, however, did not have the answer to the riddle: who amongst 'structure', 'strategy', 'process', 'technology', and 'individuals and roles' – be the best driver to effect transformation! Who could be initiated first in effecting change-leadership, and then how and which elements of

these five aspects would form the sequence of change? Structure was saddled with regulations by outside agencies. Strategy was burdened with – imposed banking objectives and the severe schism internal to bank structure reflected in branch-based banking versus total banking. Business process as such was amiss. Technology was not easily accessible and individuals represented the greatest challenge offering both greatest resistance and strongest support to change. The second chairman and a small team of a few middle and senior managers noticed however, gaps in knowledge as common denominator to these five aspects. These gaps can be represented on the four corners of a diamond, in which the left entries, namely 'branch', 'structure', 'rule following', and 'individual' depict the existing states of affairs in 'B', while the right entries, namely 'bank', 'process', 'value maximize', and 'roles' represent the desired states of affairs. This chairman and his team understood that there were gaps in knowledge between banking through a branch or through the entire bank, or between knowledge about the rigidity of existing structure and the fluidity of desired banking processes, etc. Transformation of 'B' they felt, would involve a knowledge reengineering. However, chairman and his close team were undecided about the engine of change and about the sequence of knowledge reengineering needed. Welcoming culture, they felt, would do away with big-bang changes and the sequencing and emphasise individual as the key to change management.

Culture however, was too fuzzy; and since the stakeholders would appreciate a set of signals of changes, they thought of formal change-rituals. The chairman chose BPR, value chains and bench marking as the change rituals. He convinced

the board that ‘B’ was in need of a BPR, to be more specific a BP&ISR (business processes and information systems reengineering). This proposal that a BP&ISR was needed and that an international consulting firm be appointed as a consultant – was approved. This second chairman left before the consultant was to submit its ‘Report’.

Technological states-of-affairs at ‘B’

Domestic banks including ‘B’ continued branch-based computerization and forgot to plan information system globally for the entire bank and for strategic objectives, with emphases on key business areas. Branch computerization based on piecemeal legacy systems was limited to functional tasks ignoring processes.

-computerization thus was not at all targeted to bring higher values to customers, and was not also targeted to bring to the overall bank-based centralized and profitable finance-businesses the required information; resulting into serious weaknesses in the new profitable areas of bank-based banking;

-over the years, these islands spread over from select branches to the regional, zonal and then the head office; though never connected through communication network, or through business processes establishing a ramshackle framework of management information system (MIS);

-away from customer-focus and a customer-goal this resulted into technology-into-backyard syndrome. This also strengthened somewhat the old-styled planning as well reporting on bank operations;

-technology in ‘B’ was stand-alone, derelict and could neither integrate work-processes, the working lives or the imagination of employees and the managers of

‘B’ – it was not thus a systemic technology, which alone can effect a thoroughgoing change.

-Technology could not become the first driver of change. ‘B’ had computing systems at several of its locations.

Transformation of ‘B’

Current knowledge in ‘B’, limited to the left-domain of diamond and separated in islands of functional practices does not add up to the knowledge of business process. ‘B’ has been following a personnel policy of transferring regularly its managers across tasks on the same functional line and jobs across multiple lines. It has also erected a long hierarchy of promotional avenues. Board of ‘B’ believed knowledge management was accomplished through integration of functional and spatial skills. However, second chairman argued that knowledge ought to have related to processes alone (Braganza, Edwards & Lambert, 1999).

A reengineering can initiate transformation choosing a key factor, the driver of change, out of the five factors: ‘structure’, ‘strategy’, ‘process’, ‘technology’, and ‘individual and roles’. Driver takes up in a definite sequence other four factors (Hsiao & Ormerod, 1998). In MIT framework (Scott-Morton, 1991), strategy is the driver which takes up in sequence structure first, followed by in parallel both the management processes and technology which converge on individual and roles. In Fujitsu framework (Yetton, 1994) technology as the driver impacts first upon individual and roles which change structure, followed by causal changes in management processes and finally in the strategy of the organization. A change is not linear. It is the outcome of a series of negotiations transacted over a long period

between several agencies with varied power and controls. Initial proposed solution often takes a beating (Weerakkody, Bennett & Tagg, 1999).

Negotiated Contour of Change

The international consultancy organization submitted its report nearly after a year, based apparently on the MIT paradigm but which was a mixture of everything. The consultant presented seven 'modules' on strategy, organization structure, business process redesign (for credit management, and for branch operations only), treasury, human resources, MIS, and information technology. Consultant was not to take part in change management process. Managing change is an act of negotiation and an act of 'doing' – a theory or an advice on the same without a commitment to be part of the change-activities, turn out to be meaningless and such advices fail (Weerakkody, Bennett & Tagg, 1999; Uchiyama, 1999). Consultant knew that 'B' was not as serious in changing over as B's agents were in building images. Consultant found it convenient to shirk off. All the agencies thus acted as opportunists and the alliance of win-win for all was too convincing.

Senior managers initially felt threatened apprehensive about their future in the organization. A compromise was reached early. Middle managers could not get number of positions enhanced or could not secure a faster track of promotion. A new 'B' with a strong brand-presence and definite competitive edge over others would be desirable; and so, many of these middle managers proved most active change agents.

Consultant's Suggestions

Consultant proposed key strategic services from 'B' should be under: corporate banking, small and medium business banking, personal banking, retail and mass

market banking, and rural and developmental banking. It suggested a new functional-divisional structure under reorganized functions to be managed by different ‘heads’. Personal banking, corporate banking, banking for medium businesses and for co-operatives were the new functional thrusts No process defined by value chain across functions and along the vertical line from branch upwards was identified. Strategy was identified with a reorganized functional structure alone. Suggestions included defining of clear reporting lines, ensuring that existing processes remain well controlled, roles defined and business structures set up around target markets. The support/control functions again were to be along functional lines managed by four heads – which included a position for new ‘corporate services’, which included functions of planning, MIS, etc. However, functional structure did not include any technology division or technology function. Only peripheral business processes from counter-services and cheque-clearing ‘functions’ of a branch, and from credit appraisal and management were identified for BPR. Suggested process redesign was not to involve major shakeouts in structures and existing functional lines (in fact strengthening of reporting lines, stricter defining of roles were suggested). The branch-based and bank-based diarchy in ‘B’ was left untouched by the consultant and business processes that could integrate the functional structures of branch with the head office remained uncharted. Most importantly, the report did not identify the ‘driver’ of change and the sequence with which the driver would effect successive changes.

Fear of Change and Technology to Control

Uncertainty regarding change arouses fear for loss of control; consultant suggested a rigorous and invigorated MIS while keeping the role of technology only as an adjunct.

Suggested MIS should reduce time to collect information from the branches, get centralized and collect right information on clients, defaults, risks, etc. Such a centralized MIS function should be part of the function of finance, induce a stronger functional/divisional control structure, and remaining within the function of finance, it would be guided by the old strategic planning. MIS with strong functional emphasis would by way of enhancing the power of planning, reduce 'B's exposure to the changes in technological market. Opportunist internal agencies thus liked this idea of consultant.

Consultant's IT strategy was to support the strategic initiatives of anytime anywhere banking for personal and corporate customers – as the most important objective. IT support to the redesigned processes, the MIS and HR renewals, improvement of customer service and ensuring uniformity of service, and improving efficiency of housekeeping – were ignored. Most importantly end-user computing was simply forgotten.

Change Management as Compromise

In short, suggestions on IT failed far short of any contemporary and comparable IT projects in a large bank abroad. Suggested implementation schedule kept 'PC/LAN' automation and selection of IT system on the beginning of the eighth month. Interestingly, 'establishing new senior management team' was the first task on the first month, followed by 'developing business plans and marketing strategies' and 'defining roles and responsibilities for key positions' on about the second month, to be followed by 'reconfiguration of branch network, on about the third month. These were

to be followed by ‘identification of existing skills and staff reassignment’ on about fourth month, succeeded by ‘management of staff transition’ in the next month, etc.

Phases of identified ‘change management’ were successively as following: organization structure; process redesign; human resources and change management; management information; and information technology. Interestingly, while the initial approach to transformation appeared to have been driven by considerations of strategy, the implementation schedule conveyed the hint that the change was to be driven by structure. In the phase layout while the process appears as second, in the implementation schedule it appears much later. Such incongruities appear to be the result of a complex negotiation process.

Departmental MIS now replaced by a centralized MIS reporting directly to the Chairman and the board overlooked end-user competence. With centralized MIS customer focus of banking, especially at the branches, and the process-centricity of information generation, collation and collections were lost altogether. Information system was replaced by a management information system. The former could sustain a local business process-driven initiative based on end-user computing and generation of skills and novel businesses at the local or branch level.

Conclusion

‘B’s operations failed it buying-out strategically positioned banks abroad. Size matters in banking. Integration of several types of banking too matters. Such an integration of large number of banking processes in a large corporate entity is the foremost long-term challenge ahead of ‘B’. Its BPR never laid out clearly the processes or set up a

process performance measurement system (PPMS) to monitor the progress of process reengineering. The puzzle of what constituted the driver of change remains unsolved.

Absence of a strategic position in the market and an edge over others in productivity, in market presence or even its failure to establish a dependable brand-name, have rendered ‘B’ unattractive in the long-term. It has successfully met short-term targets and its stakeholders in the board are happy. The most significant gain from a BPR is that processes are visible, identifiable and synergistically integrated rendering passage of information or signals especially from the top management quicker and uninterrupted. However, signals inside ‘B’ face road jams. Removal of mismatch between the strategic intent and the structure should have been the prime target of its BPR.

The next challenge is to sustain such process value chains as can integrate the processes with the market. A simple strategic control over the processes or functions by the top management ensures compliance with strategy but it does not ensure creative participation by the end-users in the organization. Negotiations and dynamic formation of opportunistic alliances between several teams inside ‘B’ with the consultant subverted the turnaround time and again. A complex negotiation-skill alone can guide.

The consultant and the board did not understand the design implications of IS/MIS and of the BPR. Managers felt that the project should have given importance to incentives reengineering, to harnessing core knowledge competencies and in bringing competitive pressures down inside the business processes through a thoroughly overhauled IS/MIS, a high degree of training in computer use with

subsequent training in attitudinal changes, a better software and a better computing platform. The core problems of branch-banking versus bank-based banking, gaps in knowledge and inability of the structure to offer an incentives-system remained unsolved. IT needs to be in the driver's seat.

(words: 3762)

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