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Incentives and Knowledge Mismatch: The Deemed Failure of a BPR Project in a Large Banking Organisation

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EXECUTIVE SUMMARY

A large public bank 'B' in an economy now under transition to liberalization, attempted reengineering its structure and business processes. 'B' 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. Appreciating that competition was sharpening; two successive chairmen and a few senior managers initiated change management. However, they could not choose—from out of structure, business process, strategy and technology – what was the driver of change and in what sequence of change would be the best outcome! A consultant was appointed. However, negotiations on change management between the stakeholders and the consultant resulted in tacit opportunistic alliance. An apparently loaded report on change resulted in minor changes. BPR failed because processes remained unrecognized and technology instead of hastening change turned out to be a new instrument of monitoring.

BACKGROUND

Indian banks have remained under strict government control since 1969, the year of nationalization. The process of liberalization followed by a partial globalization which began about the mid-eighties took up first industry and then finance and banking. Public banks with a large number of employees and a huge burden of lost assets were under the control of several regulators. Foreign and private banks did not have these problems and they were becoming increasingly competitive. Moreover a liberalized economy began demanding that the public banks take up a new appropriate developmental role. The bank 'B,' which was studied here, was nationalized in the same year, and like other banks, it had a board with a chairman and other members nominated by the government. Several machinery of the government for example the Reserve Bank of India (RBI), the Indian Banks Association (IBA) and the Ministry of Finance (MoF), have maintained control over the bank. Moreover, an industry-wide employees' union has been exercising a large degree of control over both personnel management and general management through industry-wide negotiations as well as

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through representation on the board. Banking policies, expansion of bank and personnel policies, modernization and technology use, and even the strategy and structure of 'B,' thus continued to languish under these controls. However, since in particular 1991, the system of controls over banks and over 'B' began weakening. 'B' too began preparing itself for managing the changes, however, the culture and managerial system was burdened with sufficient dead weights.

'B' was set up in 1906 by a group of businessmen of Mumbai, a city known for its business communities and for its traditional skill in handling banking and finance. Prevailing British colonial rule over India prevented through a large number of injunctions a free growth of banks and 'B' learned over several decades how to bypass and cope with preventive rules. Its structure built within itself a mechanism and a culture as it were, to overcome regimes of external control. Such a managerial structure indeed helped it overcome again, to a large degree, the control regime of the post-1969 nationalization period. Over the years this bank grew up in two strategic areas: retail 'branch-based' banking carried over through large number of dispersed branches, and non-retail 'bank-based' banking in several financial instruments carried through the head office.

With nearly 2,500 domestic branches, it has a large network across cities and the countryside, though most of its branches are in western India, which is also the region known for its business and industry. 'B' compares very favorably with the best and the large banks of India; for example, deposits with 'B' grew at 23.04% during 1997-98, while three other large nationalized banks had growth rates of 21.63%, 14.18% and 18.94%. Advances made by 'B' grew during this same period at 20.09% while these three banks had advances growing during this period at 19.79%, 14.05% and 15.59% respectively. Growth in operating profit during 1997-98 was 20.2% for 'B', and it had a similar figure during 1996-97 though there was a fall in 1998-99.. Only two other banks in India experienced growth in operating profit in the range of 10%. Some of the key financial ratios (see Table 1) of 'B' and the comparative performance of 'B' vis-à-vis two other large public sector banks as well as the entire banking system (see Table 2) indicate its viable and positive performances during this period.

Table 1: Key Financial Ratios of 'B'

Parameter	1996-97	1997-98
Return on average assets	1.01	0.86
Yield on advances	13.17	12.20
Average cost of deposits	7.50	6.90
Non-interest income to net income	30.06	31.10
Staff cost to average working funds	2.01	1.83

Figures in Percent

Table 2: Comparative Performance of 'B'

	Bank 'B'	Bank 1	Bank 2	Banking system
Deposit – 1997	319730	321370	308060	5055990
Deposit – 1998	393390	391260	351740	6013480
% Growth in deposit	23.04	21.63	14.18	18.94
Advances – 1997	183370	165230	140670	2784010
Advances – 1998	220200	198030	160430	3218130
% Growth in advances	20.09	19.79	14.05	15.59
Net profit, 1997-98	3650	4590	5010	

Figures in Rs. Million

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