Strategic Change Management Issues and Imperatives for the Banking Sector

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I am happy to be a part of the annual convocation ceremony of Justice K S Hegde Institute of Management, an institute of repute and credibility in management education. I am equally thrilled to be amidst the budding professionals here, the young and energetic. In true sense, they are the torch bearers of new emerging India. This graduation ceremony is a major milestone for most of the passing out students, a phase that is going to bring in radical change in their mindset and physical attire. It is the phase that marks the change in their role from students to practitioners in various disciplines and capacities. While I have my best wishes for their career prospects, I would also urge them to take the forces of change into their stride with confidence and commitment. While change is imminent and inevitable in all of us, it is the way we manage change that distinguishes the leaders from the laggards.

Most of our leaders, statesmen and present day business barons, were not born with silver spoons in their mouth. Nor they bequeathed their present position from their forefathers. We all know that the late Dhirubhai Ambani hailed from one of the poor villages in Gujarat. He neither had the professional degree from the Oxford nor any family capital. Yet, driven by ambition, he could set up an empire that was India's first privately owned entrant to the prestigious Fortune 500 group. Such examples are quite abundant in India and to recount the same amounts to just stating the obvious.

BACKDROP

It is often said that the only thing that is constant in today's dynamic world is change. Then comes the issue as to whether the change is for better or worse. But for most of the practicing professionals the real challenge is how to manage the change. Change management being one of the most topical and relevant issues in the current context, I thought it apt to share some of my thoughts on such an issue.

After your Masters, you may have to take up varied assignments at different organizations. Naturally, there will be various roles and responsibilities that you will have to pursue with prudence and passion. One of the major functions for all of you will be to cope up effectively and efficiently with the forces of change – from within and outside the organization. It is mostly your efficiency matrix that will have a bearing on the organizational strategy formulation and the effectiveness thereof. Strategies could be in terms of the top line growth, bottom line basics, marketing, innovation, fostering of a progressive HR culture and strategies for living up to the expectations of all segments of stake holders. I am sure, initially the learning curve for you all may seem to be a steep one. It is bound to be so, given the fast pace of change in the business environment and the real timed pace at which you would be required to respond to the change. However, I am equally confident that your generation is well equipped to leverage the benefits of change and help the organization reach higher peaks of excellence.

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Being a professional banker for over 35 years and an avid student of economics, I would like to confine my views on the economic scenario, in general and the banking sector developments, in particular.

INDIAN ECONOMY : CHANGING PARADIGMS

Before independence, during the first five decades of the 20th century (1900-01 to 1946-47), the annual average growth performance of the Indian economy was dismal, averaging 0.9 per cent. Since the beginning of the planned development process in the early 1950s, the GDP growth displayed a self-accelerating tendency reaching a level of around 6.0 per cent in the 1990s. The record of inflation in India, barring the occasional spurts, has also been satisfactory. Since independence, the wholesale price inflation, on an average basis, was above 15 per cent in five out of fifty years. In thirty six years, out of fifty, inflation was in single digit and on most occasions high inflation was due to external and domestic shocks such as sharp rise in fuel and food prices.

Managing Growth

In the new millennium, GDP growth rate has accelerated further averaging 6.9 per cent during the seven-year period 2000-01 to 2006-07, while the growth rate in the last five years (2003-04 to 2007-08) averaged 8.7 per cent. In 2005-06 and 2006-07, it has grown still higher at 9.0 per cent and 9.4 per cent, respectively. It is also worthwhile to recognize that the growth process in India is mainly driven by domestic consumption, which accounted, on an average, to almost two-thirds of the overall demand.

Thus there has been a distinct shift in India's economic fabric, from a low-growth-relatively high inflation regime to the recent very high growth-low-inflation scenario. This shift or change of gear was fraught with several challenges. Doomsayers suggested that overheating was imminent, leading to dilution in the economic fundamentals. There were fears of asset bubbles. But thanks to well calibrated and calculated policy interventions, all such fears were belied to a major extent. India's largely non-disruptive growth story now attracts worldwide attention. We all should take pride in the fact that India occupies a place of prominence in the top rungs of emerging economies. India's place in the BRIC economies also merits attention as it gears up to take global centre stage post-2020. There is also added comfort in the fact that India has remained by and large immune to the economic and financial crises elsewhere in the world, notwithstanding the fact that its trade volumes as well as capital transactions with rest of the world have been constantly on the increase.

Growth With Social Justice

Lack of trickle-down effect has long been told as a weak link in India's growth story. There are millions still struggling to earn a square meal amidst inadequate social overheads and malaise like malnutrition, lack of primary education and basic necessities like water and shelter. It is quite disturbing that the demand-supply gap in basic dwelling units runs in excess of 40 million. In remote villages we still see people walking miles to fetch safe drinking water. Now, with overwhelming support and policy thrust, India's inclusive growth strategy is going to revolutionize the concept of growth with equity. The time taken in reaching the desirable inclusiveness in our growth paradigm will have to be endured. We must recognize the same while continuing to contribute increasingly to such a paradigm. In this context, Corporate Social Responsibility is another essential prerequisite for the success of the inclusive growth movement. With decentralization and grassroot strategies being India's forte, a development model based on public private partnership will be ideal for realizing the true growth potential of the country.

The essence of what I have said is about change management. No doubt, growth is of paramount significance, but we need not be overawed by growth alone. If the benefits of growth fail to reach the deserving, then one must learn to see the changing growth dimension differently and pursue change management strategies accordingly. Economic growth and its ramifications must be looked at in a 360 degree perspective or else growth alone does not hold much ground.

Surge in Capital Flows

We have been historically a capital scarce country, endowed with abundant supply of skilled labour. In the early nineties, our forex reserves were not even enough to provide import cover for six months. Our share in world trade was below 0.5% and foreign investment, even till late nineties were quite meager. The scenario has changed dramatically. It is said that the capital inflows present problems of plenty and there is a need for not curtailing the flows, but managing it prudently. As you would have read in the text book on monetary economics, foreign exchange assets of RBI do have a bearing on the overall liquidity position and consequently, on inflation levels. Striving hard to achieve the so called "Impossible Trinity" (striking a balance between exchange rate, interest rate and inflation), one must complement Reserve Bank of India for doing the impossible. The Central bank has indeed done a commendable job in managing such a change in such a manner that there is no adverse impact on the market sentiments and no undue pressure on price stability, a key focus area of the central bank. The very fact that the Governor and the Government have shown readiness to sacrifice some growth for more price stability is a strong pointer towards effective change management strategies. It's a happy augury that India continues to be one of the most preferred destinations for foreign investment, with consistent up-gradation in its sovereign rating.

There are lot of other dimensions in our growth story that underline the importance of effective change management. To name a few, one may think about the dominance of services sector and the leapfrogging of manufacturing sector, tax reforms and revenue buoyancy in line with the Laffer Curve principles. Also think of the strong focus on a second Green Revolution for commercial crops and the need for staying resilient to contagions in the likes of the sub-prime crisis and the impact of recession in US, the appreciating Rupee and so on. These are areas which require frequent review by policy makers as well as professionals with readiness to go for mid-course corrections whenever required.

INDIAN BANKING SYSTEM: COPING WITH WINDS OF CHANGE

Having discussed about the change management mechanism in the economic sphere, it's time to have a look at change management from the perspective of the Indian banking system.

Banking reforms, which were introduced in the early 1990s as part of the structural adjustment and economic reforms agenda, had a profound impact on the Indian economy. With a view to making the reform measures mutually reinforcing, the reform process was carried forward by adopting the international best practices through a consultative and gradual process. While the main objective was the enhancement of efficiency in the financial system, a concomitant goal was to impart stability in a new market oriented environment. There were bold and major changes envisaged which evoked mixed reaction from various quarters and to a large extent, the policy changes have proved to be quite worthwhile and credible.

Major policy measures in the banking system related to phased reductions in statutory preemption like cash reserve ratio and statutory liquidity requirement and deregulation of interest rates on deposits and advances, except for select segments. While introducing such a change, the Reserve Bank of India also endeavoured to establish an enabling regulatory framework supported by effective supervision, and development of legal, technological and institutional infrastructure. The main theme of reforms was liberalization and operational freedom with due focus on accountability and strong supervisory safeguards in line with global benchmarks. The regulatory norms with respect to capital adequacy, income recognition, asset classification and provisioning as also the accounting practices have progressively moved towards convergence with the international best practices. Basel-II capital adequacy framework that is being implemented in a phased manner with effect from March 2008 is another move that promises to keep Indian banking system ahead of the rest in terms of operational prudence and strong fundamentals.

Similarly, the diversification of ownership of banking institutions has been enabled through private shareholding in the public sector banks. Competition has been enhanced with the entry of private and foreign entities and foreign capital in the financial sector. The banking sector reform combines a comprehensive reorientation of competition, regulation and ownership in a non-disruptive and cost-effective manner.

After the banking system was opened up by way of liberalization initiatives, the process of adjustment, contrary to apprehensions from some quarters, has been quite smooth and non-disruptive. Regulatory functions have been quite effective and self-regulation has been a key focus area for many banking institutions. As a result, we can see that the Indian banking system has remained reasonably crisis free and its role in the growth of the real sector has been phenomenal. I would like to make specific mention about the public sector banks, which continue to contribute their mite in the development of the economy, accounting for over 72% of the assets of the entire banking system and doing really well in terms of major financials.

A few years ago, a major challenge for the banking system, as envisaged and expected by the stakeholders was to pre-empt any instability in the form of economic overheating and any damage from the viewpoint of fundamentals. As you may be aware, starting with 2004-05, we saw credit growth in excess of 30% for three consecutive years, with incremental credit deposit ratio staying well above 100 per cent. This was a sudden change and its likely impact needed to be appreciated and analyzed in the right earnest. It was April 2007, when the aspect of Credit Rebalancing in favour of the productive sectors caught the attention of policy makers and the bankers. Credit growth was necessary, but overexposure towards speculation rather than productive activities could not be afforded and thus, far reaching measures were announced to rationalize credit growth. New prudential norms were announced in terms of risk weights and provisioning norms for advances to specific segments, ceilings in credit exposures were redefined and a strong check & balance mechanism was devised. The results are for all of us to see. Overheating was largely thwarted, the impact of asset bubble was minimal and credit growth was controlled, with a higher share of incremental credit deployed in the productive segments.

These are few examples, I thought apt to share with you and we must take cue from such events if we are keen to handle change effectively. In fact, if we get into the details, I think we may require a full day session for discussing a vast multitude of such issues. However, I feel, I have been able to put across the very substance of my address in clear terms. The underlying message is that change is imminent, we can not stay aloof from the forces of change. Change has to be embraced for keeping pace with the rest and change management is one discipline wherein we have to raise the bar consistently. Lest, we shall be left behind. As budding professionals, more than technicalities, you must reorient your mindset for accepting change as it is and to use the financial parlance, you must hedge it prudently to leverage its benefits rather than being obsessed with the legacy issues.

Finally, my address will be incomplete if I don't delve into the kind of change that we have encountered in Vijaya Bank all these years, more particularly, in the recent years. For the youngest of the public sector banks, that took birth in South Kanara 76 years ago, it has been a success story on many counts. A Bank conceived and set up for a local community in South Kanara has emerged as a fast growing mid-sized Bank that has pan-India presence, i.e., 1053 branches across 28 States and 4 Union Territories. The last two years have indeed been quite phenomenal for Vijaya Bank in terms of fundamentals and growth dimensions. Our total business have grown to nearly Rs.80000 crore, helped by accretion of more than Rs.18000 crore during each of the last two years. This is as against a business volume of Rs.44000 crore as at March 2006, the time when I assumed charge as the Chairman & Managing Director of the Bank. The bottom line for the Bank has been no less significant, thanks to an effective trade-off that has been struck between the size of business and the profitability issues. On many counts, the Bank is well placed vis-à-vis the global bench marks, be it in the field of capital adequacy or return on net worth or asset quality. The Bank has bagged many awards and accolades for its varied feats.

In the sphere of technology application, Vijaya Bank was one of the first few to implement Core Banking Solution that has enabled quality customer service, efficient intermediation and swift internal control. The IT initiatives have been backed up by alternative delivery channels like a fleet of 272 networked ATMs, Internet banking facilities and so on. In the sphere of financial inclusion as well, the Bank has done commendably with 100% financial inclusion achieved in all its lead districts. As regards product development, we have recently come out with a new deposit scheme called V-*Gen*UTH specifically aimed at children and student community. The response to this novel scheme has indeed been overwhelming as we have been able to get patronage from more than 2,50,000 young clients in the GENERATION NEXT segment. I am sure, quite a few of these graduates would be aspiring to go for higher studies and I am sure there is valid reason for us to forge new partnerships, that's for a life time. An additional feat for the Bank has been a slew of initiatives that we have taken in the field of Human Resource Management. Employee re-skilling has been an area of importance which we have been able to achieve by refurbishing the training modules. Besides, we have also taken recourse to lateral recruitment through direct and campus routes, keeping in mind the long term requirements of the Bank.

All these developments have taken place within a short span of time and amidst quick turn of events in the external and internal environment. At the cost of repetition, let me say that these would not have been possible but for adequate and effective change management strategies adopted by the Bank to make a traditional bank one of the most progressive banks in the country. We at Vijaya Bank are conscious that change is not a one-off occurrence and change must be welcome at every stage of an institution and its employees. I must urge this young audience to be receptive as well as proactive to change, that will be the ultimate success mantra.

Change is the only thing that is permanent in life

- Goutam Buddha