CASE STUDY

State Bank of India - Parivartan

Background and Context

With roots stretching back to 1806, this stalwart of the Indian economy was losing market share to up coming private banks and a growing list of foreign players reaching customers with new products and new technologies. State Bank, in which the government has a 60 percent interest, was languishing in inertia.

In 2006, when OP Bhatt was appointed Chairman of India's leading bank State Bank of India (SBI), the bank was confronting a host of problems. Though it was the market leader, it was facing tough competition from private players and there was a steady erosion in market share. The bank had become just another bank. Maybe it was the largest bank in India in terms of assets, branch network, customers, but so what? It had lost its voice and its influence significantly. It was unable to attract young or affluent customers and its brand image was perceived to be old and staid.

The top management team led by Bhatt recognized the need for a transformation, but the challenge centered on bringing about a mindset change in 2,00,000 employees stretched across 10,000 branches who have for decades worked in a non-competitive, monopolistic, public sector environment.

What went wrong?

Until the 1980s, the bank was doing fine. But toward the end of that decade, the dominance of the private sector began, and by the early 1990s, after liberalization, there was more competition from both private and foreign banks. They came with new technologies and new products, a hunger for the market, a sharp risk and reward strategy, and without any legacies. SBI carried the legacy of being state owned, outdated technology, a suspicion of trade unions, and no competitive spirit.

Opportunities Missed:

Two significant segments were slipping away:

One was large and midsize corporations. There was a time when the main thing a corporation needed from a bank was a large chunk of money, and SBI was the king of this business. With its huge distribution network to collect large sums of money from depositors, it was always available to give to these customers. But suddenly these corporations didn’t need just money; they needed something else—for instance, fee-based services like treasury, trade finance, and cash management across multiple currencies and borders—that required technology SBI didn’t have.

Naturally, these businesses started moving away to competition, which was better equipped in terms of technology.

The other segment was the young and affluent. They had never been a significant customer base for the bank, but eventually more opportunities surfaced for young Indians who were salaried workers or even self-employed. For these youngsters, State Bank was not the first bank of choice. When younger people started becoming more affluent, the Bank didn’t notice. Psychologically, it
was easy for these young customers to veer toward the private-sector and foreign banks which offered a gamut of services.

**Damage Control at the Bank:**

State Bank was conscious that things were slipping away. Immediately it started doing many things:

There was a reorganization effort, and another layer of management was added, which added to the response time within the bank. There was also an initiative to computerize the branches. It took a fair amount of time for the bank to get this initiative in place. A voluntary retirement scheme, was also started which meant some of the best people, taking the retirement offer and then going to the competition.

The Bank needed these people, so the program was ended. Rollout of the centralized computerization system was also stopped. Problems with the system—poor connectivity and its complexity—meant that it was actually damaging Bank’s ability to serve customers. Bank was losing business, and the staff was getting frustrated. Shuffle in a lot of portfolios in top management also happened. All this was primarily damage control.

O.P. Bhatt had a vision for the bank when he joined as the Chairman but it was time when he needed to make a focused effort with preparation.

**The Transformation Journey** started by talking to senior executives in small groups, trying to get them both worried and excited: worried about what had happened to the bank and excited about how we could undo the damage. When a critical mass had understood the problems at the top level, he held a conclave where 25 of the bank’s senior leaders sat together for five days talking things over. It was very different experience for all.

The conclave started with the critical goal to shake this huge corporate behemoth from its lethargy. The leaders had structured discussions about how to build a bank, what to do in the bank, what not to do, the problems we faced and how to solve them, and so on. Bhatt also discussed the current status of the bank and was brutally honest about creating an environment where people were free to voice their ideas, to criticize and to accept criticism, and in the end to build consensus and alignment.

A 14-point agenda was crafted at the conclave that fell into three broad groups. The first involved issues directly related to the business. What products and businesses are we missing out on? Where should we make our presence felt? Are there businesses we should abandon? What needed more energy and focus?

The second group of ideas focused on how to facilitate these businesses. They looked at business processes, risk management, performance management, technology, incentives—all those things.

The third area centered on people. What is it that demotivates people? And what can be done to change that? They talked about training and recruitment, but also discussed motivation and whether a different organizational culture, role modeling, communications strategies, and leadership was needed.

Together, these measures became the grand strategy that encapsulated the new vision for the Bank.
Reaching out to the massive workforce

The 25 people at the conclave were feeling great about the new ideas. But there were 200,000 people in the bank. How to communicate these ideas to them?

The leadership wanted to create alignment in a natural way.

A first step was to edit the state of the nation address into a presentation that the deputy managing directors could make to all 10,000 branch managers. There was some hesitation, but the deputy managing directors eventually made the presentation across the country in groups of up to 80 branch managers. The chief general managers, who oversee these branches, were also there. People were very moved when this happened. Nobody had told them anything like this before.

In addition, this was the first time the chief general managers had met with all the branch managers under them. A CGM had to oversee 500 to 1,000 branch managers and have a tenure of about two or three years. In his tenure, he might meet 100, 200, 300 branch managers, but not all. For branch managers it signaled an entirely new approach, underlining the importance of individuals and the transformation process. It was also a great opportunity for the CGMs to hear the issues from the front lines, establish rapport, and understand the pulse of the bank better.

And it was yet not over. The conclaves continued, bringing together senior managers again and also lower-level leaders. In groups of 50 to 100, the Chairman himself, with all the assistant general manager in closed-door, no-holds-barred conversations, where primarily he listened to their perceptions of the bank, its issues, and what they thought should be done.

Trade Unions were other key stakeholders, and senior representatives from the unions and officers’ associations were brought together in a meeting similar to the management conclaves. Mr. Bhatt spent four days with 30 leaders from across the country.

Bhatt said, “Some of my best advisers at the bank warned that the leaders weren’t trustworthy and could be disruptive. They wanted to know what I was doing and to be a part of it. I told them I’d sit with them, but only if they came as friends of the bank. I think what hooked them was not only the quality of the discussions and the revelations but that the chairman was willing to spend so much time with them, eating and drinking, even singing and dancing.”

The results were fantastic. They had the good of the bank as much at heart as anybody else, and they came to realize the chairman cared about people as much as they did. Just as important, they had not understood how badly the bank had slipped but now saw they could do many things to reverse this shift. Pain and motivation came together.

Change at SBI

Three new business groups were created – a treasury vertical to convert treasury into a profit center under a deputy managing director, who would undertake all the tasks that treasuries.

A rural business group tasked with reaching out to 100,000 unbanked villagers in two years, well as an outsourced model led by technology and the lowest costs possible.
The third group, corporate strategy and new business to identify financial-services opportunities in areas in which the bank wasn’t active or doing poorly and develop these new products or businesses.

With all this effort put in SBI was no longer losing market share. Market share was used as a major metrics in the bank because that is something everyone understood.

*Bhatt says, If I told them that we have to improve profitability or market cap, that would be more difficult. We’re also improving against other metrics.*

In January 2008, the Bank became no. 1 in India in terms of market cap, overtaking ICICI bank. Mr. Bhat received CNN-IBN’s Indian of the Year award. Customer service is also improving. In 2007, SBI was rated the best bank in India in terms of customer service, brand loyalty, and branch strength.

**Making Change Stick**

A two-day program called “Parivartan” was implemented as a mass internal communication programme. The idea behind “Parivartan” was to sensitize everyone at the bank from clerks to Scale IV Officers to the need for ongoing change. It was a workshop specially designed to create change awareness and as a call to action or duty among all employees.

More than 3,800 two-day Parivartan workshops were held at more than 100 venues throughout the country for around 100 days to cover all employees, starting from July 16, 2007. Parivartan brought new energy across the bank—more pride, more involvement, and more joy. Across the bank, there was a perceptible, qualitative change in the kind of customer service the bank renders.

**Way Ahead**

The climb ahead is far steeper and more difficult. International business, extending reach within India, driving more efficiencies, providing entire range of banking and financial services, acquiring resources, technology, products, or skills.

*Bhatt says, And finally, I want to do all this by instilling in my people a sense of service and helping them realize their work in the bank is not only about excellence in the workforce but also about self-development, evolution, and excellence in life.*

**Discussion:**

1. What were the triggers for Change at SBI?
2. Why do you think the initial few initiatives did not reap desired results?
3. What do you think did the Bank do right?
4. What would be your initiatives to sustain the change?