

## CASE ANALYSIS 2

**D. L. Sunder**

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### I. Introduction

The case focuses on the structural changes initiated by the NB, particularly with reference to the introduction of the Hub and Spoke model in retail banking. The entry of the private banks increased competition in the industry and NB was forced to explore new options and markets to maintain its market share and position in the industry. The drive to increase business also resulted in an increase in the NPAs of the bank. The then Chairman Mr. Chatterjee decided to leverage technology as was being done by the private banks and introduced ATMs and 100% computerisation including Internet banking, which would make banking services available 'anywhere anytime' across the country. He also decided to introduce the Hub and Spoke model in the retail business. This was aimed at improving the effectiveness of the loan sanctioning process and reducing NPAs.

The new 'Hub and Spoke' structure moved the loan sanctioning power from the branches to the Hub, leading to unhappiness at the branch level. The branch officers felt that they were in a better position to assess creditworthiness of the applicant compared to the appraising officer at the Hub because they were closer to the client. They also felt that the appraisal at the Hub was done in a mechanistic way using very stringent criteria, and tended to be very conservative. The members at the Hub disagreed with the above-mentioned viewpoint and said that the system was working so well that the NPAs had reduced and customers were in fact using their credit rating by NB to obtain loans from other banks.

The associated issues are as follows:

- Would the new chairman support the initiative of his predecessor?
- The men who were being posted at the Hub were not the best officers, and as such the effectiveness of the decisions taken at the Hub was sub-optimal.
- Although new technology had been introduced, continuous training on the new technology was not provided. This was critical because most of the employees at NB were senior in years and were not conversant with the technology.
- The reward and punishment system left a lot to be desired because there were no incentives for a good record of sanctioning loans.

### 2. Discussion

It is important to recognise that with liberalisation, competition has come to stay and would only increase. Being a government bank, NB would have to work towards fulfilling the social objectives of the government and operate within the rules. They would not have

the flexibility available to the private and foreign banks. Employees would have to accept and acknowledge that the environment has changed and management has ensured that this message sinks in. Further, with increased targets, it is natural to consider any and every loan application and consequently the increase in NPAs. The Hub and Spoke model is a required intervention, bringing discipline to the loan sanctioning process. However, we cannot ignore the contention of the branches that being closer to the client, their assessment would be better because of their knowledge of their client. If the branches were relegated to the position of sales offices, then co-operation of the branches in collection and servicing of loans would suffer. As one of the employees suggested, the best solution would be for the Hub and the branches to work together.

Issues regarding training, selection of officers, reward and punishment: Effective leveraging of the technology by moving towards a paperless office is critical and needs to be addressed.

### 3. Recommendations

The loan sanctioning process should be modified to include inputs from the branches. Some of the alternatives are as follows:

- The branches can sanction loans up to a threshold value. The concerned officer at the branch would be responsible for bad debts if any. Beyond the threshold level, the Hub can independently assess the application, and if both the branch and the Hub recommend the loan, it would be sanctioned and both the officers at the branch and the Hub would be responsible. If there is a conflict between the decision of the branch and the Hub, it would be referred to the next level for a decision. In such cases the officer in favour of sanctioning the loan (at the branch or the Hub) would be primarily responsible, with the officer at the sanctioning level (circle) holding secondary responsibility.
- Weightage could be assigned to inputs from the branch and the evaluation done at the Hub. A combined score could be used to sanction the loan. The responsibility would rest with both the branch and the Hub officers.
- The Hub would only check if all the processes have been followed and point out issues to the branch and the primary responsibility for the loan would lie with the branch.

The reward-punishment mechanisms should be modified to include incentives for a good track record of sanctioning and recovering loans both at the branch and at the Hub. Hub positions should make coveted positions to which officers from the branch aspire for and a stint at the Hub could be made a necessary component of the promotion process. The selection to the Hub should be made by the circle/head office based on the performance of the candidates at the branch.

The situation faced by the NB reflects the problems faced by any organisation when changes in environment dictate dramatic changes in the organisation. Clear communication on

the goals and direction taken by the top management is essential. In addition, the top management on every possible occasion should reinforce the communication. It is also necessary that the implementation of the changes be done as humanely as possible. The emphasis should be on rewards for contributing and implementing the changes rather than punishment.

Technology is an enabler. However, to effectively leverage the technology, it may be necessary to let go of the legacy systems. To do this, the confidence in the new technology should be built by extensive training.

### Author's Profile

#### **D. L. Sunder**

**D. L. Sunder** is a faculty in the area of Strategic Management and Entrepreneurship at Indian Institute of Management Indore. His areas of interest are Strategic Management, Entrepreneurship, Mathematical Modelling, Innovation, Business Forecasting and Scenario Planning.