Dare to Lead: The Transformation of Bank of Baroda

A CEO's Personal Account of Historic Changes in a Large Corporation

Anil K Khandelwal

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Before one gets into the details of this book, it is important to discuss how leadership emerges in public sector banks (PSBs), largely owned by the central government. This background is important for us to place the book in a complex context in which a CEO works.

The public sector banks by design do not have a stable leadership. Let us first look at the board of these banks. Theoretically, the boards of PSBs are one of the best examples of good corporate governance practices. They usually represent diverse interests – the CEO, who also chairs the board; two whole-time directors; one practising professional chartered accountant appointed by the Government and who usually heads the audit committee; one representative from the Ministry of Finance – a senior bureaucrat; one representative of the Reserve Bank of India; a senior officer from the regulatory authority; two employee representatives representing the officers and the workmen's interests; three members nominated by the government to articulate the concerns of the society (usually these members are active members of a political party); and three members elected from the (minority) shareholders other than the government. Clearly, the Chairman hardly has a say in who is inducted into the board; there is no scope for co-option and the decision-making about board positions happens outside the context of the organization in question. While this looks like a good practice in spirit, it could create problems for the executives to take these diverse interests along. The amount of decisions that get kicked up to the board, are enormous and therefore there is limited functional autonomy for the senior management.

On the other hand, the top management itself is unstable – the General Managers of all the PSBs form the talent pool from which one or two positions of Whole-time Directors are available for the entire industry; the Whole-time Directors of all the banks become the talent pool for the CEO. Thus, from the General Manager upwards, the leadership team of the bank does not have a horizon with the bank for which they are working. It would be miraculous if a General Manager continues to be, or even return to her/his host bank at a Whole-time Director's/Chairman's position. We are talking of institutions that compete and survive largely on the basis of maintenance-based interventions by the top management. Khandelwal's tenure with the Bank of Baroda (BoB) is to be understood in this context.

There is another peculiar feature in Khandelwal's career, which defies the ethos of functioning of public sector banks. It is highly unlikely that somebody can make a lateral entry into the banking system and grow; but he did it. It is even more unlikely that somebody who does not have a hard-core banking experience makes it to this position; and he made it. And to top it, Khandelwal became a Whole-time Director and even the Chairman and CEO of the very bank in which he had his early career, a unique feat indeed. Therefore one should surmise that while he is undoubtedly an unusual and unlikely banker, there are also a series of improbable situations in the Indian banking system that actually catapulted him to the position he occupied in Bank of Baroda.

In fact all these and other complex issues of managing a large government-owned corporation are captured in the book. This story that Khandelwal tells us is about management of people and the environment. It is not about banking at all. For Khandelwal, banking turns out to be just a context, he leads an organization that happens to be a bank, works in that context, constantly fixing problems. Unlike other bankers, he seems to make a virtue out of the fact that he is not a professional banker, constantly fixing issues arising out of labour unions, motivating professionals and ensuring that the customer is at the centrestage.

When we read the book, it is clear where Khandelwal comes from. The banking parameters of capital adequacy, moving towards Basel norms, looking at liquidity parameters and credit risk come in as incidental. Even the public offering of shares to shore up the capital adequacy, which should have been a landmark event during his career at the helm, finds only a cursory mention. The primary focus is largely about managing people, having effective communication, and managing the board and the external environment. Therefore, for Khandelwal, the task and challenge is to build the organization into a great brand, delight the customer, and constantly have employees to respond to the requirements of the customers.

If we look at the banking sector, we will have to surmise that there is no strong reason why a bank should be converted into a brand, given the context in which BoB was working. It was largely owned by the government, had got some natural business by virtue of this, and could have continued to sail. There are several other banks that do this. They are safe places to save and thus would be a natural choice for people to park their money. With the overall economy on the growth path, and bulk credit being purveyed, a banker could indeed have a relaxed time and still grow, if not spectacularly. The focus on employees and delighting the retail customer would only add a little business, but would consume a disproportionate amount of energy. The experience of the customer is not significantly different from one bank to the other. Therefore there was no compelling reason for Khandelwal to embark on a punishing three-year schedule to transform and differentiate the bank. But he still did it, defying the usual banking logic and treating the business like any other customer-centric business. Therein lay the uniqueness of being an unusual banker.

By focusing on employees and regular communication with employees, Khandelwal focused on the basic nature of the banking business – that of a service industry. Particularly if the business happens to be with a large branch network, working in varying cultural contexts with large number of diverse employees, all spread out in diverse locations, unity of organizational culture is not easily achieved. By creating a re-branding exercise and driving home a common message, there was an attempt to convey the distinct values that the institution would carry as against any other bank.

What did this do to the performance of the bank? A large part of the credit, profitability targets could be achieved by concentrating and blazing all guns on the corporate credit where the big bucks came on lower transaction costs. However, Khandelwal seems to have taken the retail route in addition to the corporate banking. His book talks about constantly engaging with the customer, and when we look closely, he is engaging with the retail customer. The retail customer fetches deposits at smaller ticket prices, and takes loans at a larger ticket price. The retail customer is a well-diversified risk and is spread out across geographies. The process re-engineering of making "loan factories" ensures that the retail customer is served quickly and the intermittent process streamlining reduces the transaction costs significantly. This strategy is seen in the numbers given at the end of the book, where the retail portfolio grows faster than the overall portfolio. The non-performing assets (both gross as well as net) are significantly reduced. It is not that Khandelwal inherited a great balance sheet. Therefore it is even more exemplary that he could do the clean up quickly and efficiently.

On the resources side, somehow the strategy does not seem to have translated into better low cost deposits. The overall resource mobilization strategy seems to be oriented towards wholesale – both through issue of shares that gave adequate buffer and through growth of bulk deposits. This is also reflected in the story narrated by Khandelwal. While he focuses on getting the processes of home loans, SME, and retail rejigged, he does not talk about mobilization of resources in any great detail. Was that because Khandelwal's team, handpicked to crack the transformation, were officers who were great credit guys rather than resource mobilization guys? A part of this answer possibly lies in the credit deposit ratio of the bank — which was at around 56 per cent when Khandelwal took over, and which moved to around 70 per cent by the time he left — he just deployed the resources that were lying around and waiting.

Two more aspects stand out in the performance of BoB under Khandelwal – that (a) there was remarkable improvement in the branch experience – increased automation through provision of core-banking solutions; rapid increase of ATMs; specialized 8 to 8 branches; and so on but (b) the growth of the number of outlets *per se* was not very impressive.

So, the tenure of Khandelwal should be seen more as a tenure that cleaned up the bank, consolidated and laid the foundation for an aggressive growth. If there was another chunk of three years for Khandelwal, possibly we would have seen a different strategy playing out in the second half, which could have been in the form of an aggressive growth on the number of outlets, significant recruitments, and a focus on alternative channels and non-interest income-based services.

This is an important book for many reasons. It gives us a perspective of the constraints under which our public sector works – multiple constraints in operations but being evaluated on market-based parameters. It tells us a story of what is possible within these constraints. It tells us about the human side of banking and brings something not very fashionable in banking circles – branding and marketing. It tells us how banking could grow, even when banking is not the focus. What the book does not tell us (and this is a significant void) is the objective evaluation of Khandelwal's possible failures. Yes, he does narrate the constraints, but surely there must have been some of his plans that just did not work. With some introspection, he would have realized the existence of some pitfalls. That is missing in the book. It possibly needs more distance and time and a different style to bring it in.

Khandelwal's style is simple and straight, almost reducing the book to a guide-book for public sector bankers, which is a bit surprising given that he comes from an academic background. Possibly he deliberately styled this to be read like a racy novel and has reserved something academic for the future. While this is autobiographical in nature, he does not dwell too much on his life outside of BoB – an important attribute that any first person narrative should have. Like his job, even in the book, he is focused on the point he is trying to make: The prospect of performing under multiple constraints.

Given the disparity in the compensation between private sector banks and public sector banks, there is a natural question as to why the Indian public sector banks continue to perform and compete. Khandelwal sorts out that riddle in a response to a shareholder's question on compensation. He says, "We do not want to put our passion to auction. Passion has no price tag" (p.369). This statement sums up his style of operation and how he lives his life. Possibly his achievement was in rubbing this passion off to the other 38,000 colleagues in BoB to deliver.

M S Sriram
Adjunct Professor
Indian Institute of Management, Ahmedabad
e-mail: mssriram@gmail.com

Why Doesn't Microfinance Work?
The Destructive Rise of Local Neoliberalism

Milford Bateman

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Till recently, microfinance, as the magic bullet to cure this world from poverty, caught the attention of policy makers, development experts, economists, and students. Before the Andhra Pradesh fiasco in India, it looked as if microfinance was 'the way' to fight poverty and help the disadvantaged population progress to live a better life. It was fascinating to see how a small experiment conducted in faraway Bangladesh turned into a movement spreading across the globe catching the fancy of every concerned individual. Milford Bateman's book comes as a challenge to this notion of microfinance acting in favour of poor and argues that microfinance is doing more harm than good to the poor. Bateman takes a critical take on this 'sacred cow' in the international development policy field and argues that it is in fact a 'poverty-trap and anti development policy' (p.5).

The book is a result of Bateman's growing 'frustration with huge disconnect that exists between the heady claims made for microfinance and everyday reality'. The chapters are written by taking up some of the strong claims of microfinance and then nullifying them with even stronger counter evidences. In the first three chapters, Bateman gives an account of the birth of microfinance as an 'idea' in Bangladesh. The experiment in Jabra village started by lending money to rural poor in easy terms was aimed at liberating the rural households from the clutches of moneylenders. Prof. Yunus, who initiated the experiment, realized that by offering microcredit to the poor and helping them augment their income through promotion, small enterprises can help fight poverty. In the second chapter, Bateman thus describes in detail how an innovative idea to fight poverty