Internal and external influences on state bank of india business essay

Finance, Banks

The recent years have witnessed a phenomenal growth in the economic status of India, with the nation making its entry into the topmost echelons of the world economy, reflected in its ranking as one of the top five global states (currently ranked third, analyzed from the perspective of its Purchase Power Parity). The country is also a top ten player in terms of measurement of its nominal Gross Domestic Product ($ 1. 965 Trillion), alongside hosting the third largest equity market in the world. There has been an upsurge in the income level coupled with an insatiable appetite of the nation for credit, mortgages and personal loans, all projected to grow over 20% in the years to come. Experts have predicted Indian organizations growing in leaps and bounds towards globalizing their brands in the near future. Created as a major step towards designing a planned economic growth of India as a nation, State Bank of India is the 43rd largest bank in the world and the largest in India, with market capitalization of more than $36. 6 Billion with $2. 6 Billion profit, as of 2011 (currently, its revenue is $37. 5 Billion, with a profit of $4. 2 billion). It operates at tandem with its 5 associate and 22 subsidiary banks, together forming the State Bank Group, reaching out to people through more than 18, 000 branches and 25, 000 ATM s and employing close to 300, 000 employees in its domestic and 160 foreign branches, present in 45 nations worldwide. However, economic reforms, an open economy and globalization in the 1990's have resulted in a perpetually growing steep competition in the Indian Banking Industry, with both, world industry leaders like Standard Chartered, Citibank, HSBC and domestic players like ICICI, HDFC, establishing and extending their presence in the country. This resulted in State bank of India's market share spiraling down to

an all time low of 15% (from a high of 35%) in 2006. The phenomenal rise of State Bank of India back to its own path of glory by 2011 would be studied in this paper.

Internal and External Influences on State Bank of India

Internal Influences

Mission and Vision

To set pace to the transformational process, O. P. Bhatt, the bank chairman, had set new benchmarks to the bank's performances, thus creating new mission and vision. The four pronged benchmarks were to emerge as the best Indian banks in terms of customer service in 2006-07 and serving the public sector in 2007-08. The aim was also to become the best Indian bank in 2008-09 and ultimately become the world's best banker. The set visions acted as a catalyst for reviving the bank.

Astute Management Leadership

For securing the bank's future, the management formulated strategies, taking into confidence all the bank's personnel, irrespective of their positions in the hierarchy and thus, establishing effective leadership. Timely, efficient steps were taken up towards enhancing the bank's business.

Information Technology Infrastructure

State Bank of India has, at its disposal, a solid IT infrastructure, which facilitates Centralized Banking, thus allowing customers to transact from any given geographical location. It also allows banking via computer and mobile phones, cutting through the clutter of standing in long queues and

resultantly winning back the customers lost to the private banks along with winning new ones.

Operating Process

Operating processes in the bank branches were turned into being customer centric and sales & service oriented. This resulted into prompt turnaround times and high quality processing. Decision making was made easier with circles encapsulating smaller numbers of branches and re-allocating of their reporting authorities from deputy general managers to general managers.

Customer Service

Pro-active steps are taken in order to ensure fullest satisfaction amongst all the customers of the bank, a factor missing earlier. Customer-centricity attracted the customers back to the institution.

Organizational Communication

In-house communication was transformed completely, incorporating innovative strategies to motivate employees and making them felt to be part of the SBI team. This resulted in incorporating ownership mentality, pride, self development crunch, punctuality, responsibility etc. in the employees.

Training, Capability Building and Performance Management

SBI showcased utmost efficiency in building up a system towards building up new branches, hiring new employees and training them to build efficiency. New measures were adopted to recognize valuable employees based on their performances and award & reward them amply. Chairman's Club was

created for honoring the top 50 performers each year, thus motivating the employees successfully.

External Influences

Political

Economic reforms set forth by the Government of India has softened down many of the previous stringent regulations like regulated rates of interest on lending and deposit, depositing 50% of a bank's savings with RBI/investing the amount in government securities and entry restrictions for new banks. An open economy ushered in a number of foreign players, drawn by prospective perks of the emerging economy. Accumulated effects resulted into private domestic and foreign banks entering the scenario, thus resulting in high competition for SBI.

Economic

The recent Indian economic upsurge has resulted in a greater quantum of disposable income in the hands of the Indian middle and high income class alongside its predicted three times increase in the current decade. This presents a lucrative credit, personal finance, mortgage and consumer finance market picture, projected to rise by 20% within a short time. A strong equity market and globalization aspirations of Indian companies makes the scenario more attractive for SBI. Focus has also been laid on the rural areas which would be one of the hubs of the nation's economic growth. The diversified banking requirements of the large corporations have also been met through innovative banking ideas.

Social

Growing economy has gradually transformed the society with the requirement for varied banking requirements. Besides providing banking facilities in the rural regions, SBI plays its role as a social development agent by extending loans to increasing numbers of working women, students, housing & consumer requirements etc. SBI's personalized banking has helped it serve all the demographics efficiently.

Technological

Rapid proliferation of technology aids SBI to serve its customers anywhere, anytime through ATM s, internet banking and mobile banking. Centralized banking system has been made possible by the judicious use of IT.

Influence of Globalization on SBI's Policies and Decision Making

A new era of Globalization opened up doors of the Indian Banking Industry to the banking juggernauts like Citibank, Standard Chartered and HSBC and these players promptly got busy introducing a new facet of personal and easier banking to the nation. Top-notch customer services, cutting-edge technology and intense customer-centricity witnessed banking via ATM s, internet and phones. Heavy investments were also made towards extending presence throughout the nation and the customer-experiences in these plush, centrally-connected bank branches were designed intricately to win over customers through relationship banking. Resultantly, SBI momentarily succumbed to the circumstances, with its market capture sliding down from

35% to 15% in 2006 and thus, deteriorating its revenues, brand value and employee morale.

Retaliating, the SBI management created four strategic business groups, instrumental towards comprehensively capturing i) rural & agricultural markets ii) second tier corporate borrowers market & the global market group iii) midsized corporations and iv) the private equity, wealth management, insurance markets. Multiple management conclaves streamlined rough drafts to crystal clear transformation agendas, followed by radical changes in the bank and its operating techniques, which were as follows:

Building a solid IT platform enabling Centralized banking, internet banking and mobile banking

Branch activities were sifted thoroughly and non-banking activities were pushed to back office, while service & sales activities were kept to the branch. Plush & customer focused branch interiors were created hosting better trained personnel, always ready to serve customers. Numbers of branches per circle were brought down and handed over directly to general managers for facilitating better decision making and control.

With a change in its vision statement, customer service was laid a huge stress upon. Paths were paved to ensure that every customer is satisfied to the lees

Risk Management and Business Performance Measurement was strengthened and revamped comprehensively

Synergies were created with associate and subsidiary banks for strengthening operations

Organizational communication was streamlined for building up stronger, inclusive, motivated and resourceful teams

Solid training modules were designed for empowering employees

Recruitment drive was initiated for attracting better human resource and staffing the rapid expansion of the bank

Performance management was introduced with lucrative prizes, annual awards and rewards were being given out to the top-performing personnel, with other allied honors like membership to the Chairman's Club.

Lost middle class customers were won back via technology usage and prompt banking services

Rural market given a very high priority

Serving needs to corporate giants

Introduction of foreign currency bonds expediting globalization

Together, these successfully brought SBI back to the top spot by 2011.

Technology at State Bank of India – Critical Analysis

Till the year 2003, State bank of India branches ran its both front and back-end operations with the aid of computers, powered by their independent servers. However, the imminent requirement for technological metamorphosis was realized by the management and initiatives were taken up towards implementing Centralized Banking System. This genre of banking enabled " Centralized Online Real Time Environment Banking Solutions", empowering the SBI to lock horns with the private banks (both domestic and foreign), who had successfully been using centralized banking towards providing better customer experience and resultantly, winning over SBI clients. However, the early days of Centralized Banking System witnessed innumerable bugs in the system, giving rise to confusion and frustration amongst the bank personnel. But, with the removal of the last bug the SBI CBS turned out to be one of the most efficient in the nation.

It is the technological backbone of the state Bank of India that has reinstated it the position of industry leader. With all the branches of the bank connected centrally, the customer no more remained the customer of his home branch, but of the bank itself. It also brought about state of the art banking facilities like internet banking and mobile banking and a rapid increase in the numbers of ATM s. SBI, in the previous years, has lost out on many of the tech-savvy customers to the private banks, who provided hassle free online banking. With the incorporation of latest technologies and their wise marketing, the bank started gaining back these customers. The level of customer service was elevated by quite a few degrees as branch activities

became faster and easier to conduct, helping the complex task of process reengineering to be an easy one. The SBI website hosts a virtual service desk, which is used for resolving customer queries. Technology enables unsatisfied customers to texting their complaints via their mobiles and problems are sorted out within the span of a day. The technology implemented at SBI's aided its initiative of recruiting for new employees in terms of creating a seamless and fluid process. Applications & fees were accepted online, sparing the tiresome job of processing the paperwork of millions of applicants. Opening up new branches remained a tough ask no more by the virtue of centralized banking and the bank went on over a 1, 000 branches a annually, reaching out to people from every corner of the nation and beyond it. Services like trade finance, treasury etc. were introduced for the larger corporations, enabled only by advanced technology and the bank's clientele increased, drawing in heavy revenues. Technology, thus have played a major role in bringing about effective relationship banking, leading to the banks gigantic quantum of success in recent years.

State Bank of India – Change and Innovation Management

For State bank of India, change had become absolutely mandatory in order to nullify and reverse the damages caused by the aggressive and advanced business strategies of the private banks, augmented further by the nonchalance and overall apathy towards providing quality banking experience. As the first stride towards the groundbreaking transformational venture, O. P. Bhatt thought it fitting to involve all the head honchos of the bank in the initiative, for streamlining the transformational plan and cutting

down the level of resistance to change in the organization. In the first of the four conclaves, he met with the Managing Directors and Deputy Managing Directors and presented to them, in very simple words, the ' cocoon' or ' chrysalis' state that SBI was experiencing and shared the dream of what humongous and awe inspiring phenomenon the bank could be turned into and thus winning over the confidence and cooperation of majority. However, resistance still remained even in the highest ranks. The session also helped create a viable transformational plan towards alleviating the current sorry state of affairs. Chief General Managers and General Managers were addressed in the following conclaves, with an intention of filling up the gaps in the transformational plan and convincing them to it. New objectives were adopted and motivation was inculcated amongst the participants. Deputy managing directors were sent across the length and breadth of the nation, meeting every Branch Manager and making them a party to the change initiative. Gradually, more numbers of conclaves involving Deputy General Managers and Assistant General Managers were organized, generating excitement, passion and interest in the change to come. Even the trade union leaders, one of the biggest obstacles to the change process were met in a conclave and convinced after a brief period of resistance. The overall process of change management witnessed the Chairman involving every SBI personnel, irrespective of their ranks, via his open approach cutting across the hierarchical ladder and encouraging a bottom-up, instead of a top-down approach. Ideas were gathered and rewarded from every corner of the organization and implementing them when and wherever necessary. This minimized the resistance to the SBI transformation.

Innovation management at SBI involved two simultaneous processes. One involved strategizing the ideas to fill up the technological and quality banking void (directly affecting business), communicating them to stakeholders, carrying out a clear self assessment and implementing the steps to close these gaps. The other involved incorporating a new organizational culture to SBI, which would inspire and motivate the employees, compelling them to serve their customers better and being a proud member of the SBI family. This also involved strategizing, providing training & empowerment, facilitating communication, figuring out existing gaps and implementing mending actions.

Recommendations

The present management has been able to design a suitable launching pad for State Bank of India from where it can take a leap towards maintaining its industry leader status and even go on to become one of the top global leaders. However, this would require the bank to strategize plans wisely and follow them strictly. Some of the steps that the bank should take are:

Start up with intense brand building exercise in India and abroad, so that the SBI brand value can reach its all time high, attracting the best of human and other resources. This would also help the bank in globalizing itself faster

Create a matrix organizational structure, which would equip the bank with the ability to react faster to the constant changes of the international banking industry. A more dynamic SBI can evolve this way

Create smarter technology based banking, which would allow customers to transact faster and safer from anywhere in the globe

Customer services should be customized to every individual, instead of serving all with the generic ones. This would build closer bank-customer relationship. Branches can be fitted with mechanized banking facilities. Faster grievance resolution systems should be build

Effective succession planning should be designed and implemented. Board of advisors need to created as O. P. Bhatt at its helm after his retirement

Online training for personnel, which they can take up from any location

Sharper performance management system

Augmented services for global middle class and Corporate houses

Specialized agricultural bank for winning the sector globally