CHANGE IS INEVITABLE
ARE BANKS READY?

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Preamble

Banking sector performs a pivotal role in the economy and facilitates economic growth in several facets in the country. Though the macro economic factors and technological advancement, during the last decade have changed the landscape dramatically the 'banking' sector remains virtually unchanged. The widely accepted norm is that if an industry does not become congruent with the evolving world, survival, growth and the sustainability of the industry would become questionable. This norm applies to the banking industry as well.

This article discusses how the external environment which evolves day by day fuels changes in the banking sector. This write up, while highlighting the ascribes and the rational for change, provides some guidelines to the corporate management in banks as to how such changes should be made within banks effectively and successfully overcoming the anticipated and unanticipated obstacles.

What is Change?

Change is an inevitable process in any dynamic, well managed and a "futuristic" organization in the contemporary world. Any bank that does not acknowledge change will not survive in the long run. "Change" could be defined as a methodical and systematic approach to align with the external changes or to revamp an organization internally to augment competitiveness in the market place. Change in the banking industry is inevitable mainly due to the significant visible changes that have taken place around the world in the recent past.

Change is a common phenomenon for almost every industry today irrespective of the size of the industry, market share and the nature of the market structure. The world is eternally changing and is changing fast, therefore banks should change accordingly not only to gain advantage over competitors, but also to overcome their weaknesses or shortcomings. Banks which change successfully with the evolving world, will thrive in business whereas others will stagnate or fail. When banks change, industry will also change.

Approaches to Change

Fundamentally, there are two approaches to change. They are "proactive change" (planned change) and "emergent change" (reactive change).

Planned change which has largely dominated the practice of change management during the last two decades, stems from an approach of changing the organization from one fixed position to another higher level through several pre-planned, pre-determined, and augured set of actions to further strengthen the competitive advantages or the distinctive competencies. When banks are performing well, the corporate management should consider *"success as the biggest enemy"* and plan for the next change while performing well. However, most CEO's do not see the need for change when performing well.

Emergent approach is an unpredictable and open ended process of re-aligning with the changing environment. In this approach, change is carried out to align with significant changes in the external environment. When banks realize that they cannot move forward without making internal changes to align with those external changes, they proceed to make the 'changes'. This approach is more common as most organizations are reactive by nature.

Why Changes Are Needed ?

As stated in the preamble, banks have to pursue and embrace change due to pressure exerted by external forces beyond their control. Some of the arenas elaborated below would not only force the banks to pursue such changes, but also corroborate inevitable change due to high degree of exigency to change.

Moving towards horizontal integration

Competition between rivals within the banking industry is stiff and fierce. All banks strive to increase their market share continuously. Under such circumstances, one way to reduce the level of competition is to reduce the number of rivals in the industry through horizontal integration (HI). Banks, around the world move towards HI, not only to reduce the number of competitors in the industry but also to share resources, approach new markets and for expansion. Hence banks keep on searching for mergers, acquisitions, takeovers, buyouts or even hostile takeovers. This is common in the contemporary world. This itself is change. We, in Sri Lanka too, have witnessed many such integrations in the past. For instance, Standard Chartered Bank acquired ANZ Grindlays Bank in 2000, HNB took over Banque Indosuez in 1996. At present, based on the Central Bank's direction, several finance companies are being taken over by banks under the "consolidation process".

Such integrations automatically lead to change. For instance, upon integration, organizational structure has to be redesigned either fully or partially and incompatible cultures in two banks have to get aligned. Operational aspects and processes will also be changed. Out of all, cultural congruence is the most difficult task. The world has witnessed failures in mergers and alliances between major banks and companies in the same 'trade' due to cultural incompatibility. For instance, mobile telecommunication giants, Alcatel-Lucent, automobile giants, Daimler-Chrysler, etc could not survive due to cultural incompatibility. Employees will go through the fear of losing their jobs, re-designations and many other mental agonies with these changes. The 'change' for mergers is tricky in a subtle way as two equal giants get together and form a larger company. For instance, pharmaceutical giants Glaxo merged with Smithkline Beecham and made a larger GSK. Hence the change is difficult upon merger unless all concerned areas are specifically stated and meticulously planned out. However in the case of acquisitions, takeovers, and buyouts, the bank that acquires the other, will have a dominant say and the acquiree will have a "natural death". Hence, the top management and the employees of such banks need greater amount of change and adaptation compared to the employees of the acquiring bank. These are common in the contemporary world and therefore management and the employees should be ready for such significant changes behaviorally, mentally and financially. People as individuals, should have the ability to change professionally and personally. Contrary to the popular impression that always the larger player will acquire the smaller, there can be exceptional cases as well. For instances, Janashakthi, the smallest in the insurance industry in 2003, acquired the National Insurance Corporation (NIC) and expanded their horizons in the industry. Hence banks and the bankers should be prepared for such dramatic changes.

Changes due to technology

Technology fuels Change. The world is fast moving towards the "satellite era". Information Technology (IT) era has become history. Similar to other industries using Electronic Data Interchange (EDI) and Enterprise Resource Planning (ERP) systems, for their day-to-day activities, banks also have to introduce and adapt to these systems or similar systems expeditiously. Some of the envisaged propositions are; can banks link their branch network using their own satellite communication system like Walmart introduced in 1987 investing US$ 24 Mn ? Can banks transfer their cash electronically to their Head Office using this technology ? Can banks link their ATM network locally and globally to cater to their local and global customers using satellite technology?

The usage of hard currency will soon be diminished. Probably, the common mode of encashment and transfer of funds will be through a smart phone or a similar device. Smart phones have become mobile banks jostling the banks to accept these changes whether they like or not. Telecommunication and mobile service providers will commence their own banks as they possess the technology driven backward integration, which, would significantly increase the competition in the industry. Some mobile service providers are richer than the banks. What will happen to the banks then due to these changes? Either banks have to invest in advanced and emerging technology or buy a mobile company to align with the market changes. Bankers, are you ready to embrace such changes?

Banks will have to introduce radical changes for some of the documents and stationery such as cheque books, passbooks, security documentation etc. For instance, traditional cheque books, passbooks, and monthly statements, invoices with 2-3 copies and legal documents will be replaced by e-cheque books, e-pass books and the soft copies of security documentation soon. The legal system which needs radical changes more than the banks, will also accept soft copies and images to determine legal cases in future. Nokia is no more. Apple and Samsung dominate the smartphone market. Did you ever dream that Nokia will face this fate? These are the real life examples and visible consequences in the modern day for not aligning with the evolving world.

Is the existing bank staff equipped and knowledgeable for this type of radical changes?

Changes due to emerging markets, diversification and expansion

When some markets decline, others emerge. Globalization changes facets and the parameters of businesses. Present globalization has an Asian Face. West suffers with austerity measures; East reaps the benefits of FDIs with emerging economies. China has become the "world's factory". Earlier it was 'BRIC' nations, now it is 'BRICS'. Recently BRICS nations formed a bank with a capital of US $ 100 Bn challenging the dominance and partiality of IMF and the World Bank. Did you ever think of BRICS forming a bank? This proves that change sometimes arrives overnight.

Multinationals perceive the entire world as a seamless and borderless village. Most of the products are being produced by a few multinationals in the world acting as Oligopolies. Hence the companies will strive to expand beyond growth to capture the entire market. Local banks hesitate to go global as they are risk averse. But continue to canvass multinational company accounts to enhance their business in the host nation.

When the local economy is shrinking, the best option is to go global. Focus on carrying out business offshore.

This level of hesitance has to be avoided. Local banks have to think from the global perspective like multinational banks. Bankers, are you ready to formulate and execute different strategies to suit your domestic market and the overseas market? Needless to say, proper and meticulous planning is a must with adequate capital to go global. But the positive cognitive approaches along with the CEO's correct mental traits are important to introduce change.

Societal needs

Needs of the society are rapidly changing. Few years ago, desk tops were replaced by laptops, but today tablets are widely used. Today's innovations become obsolete tomorrow.

These rapid changes have completely changed the customer needs. Customers demand convenience. Fundamentally, customers wish to get all their -financial services while at home or office.

About 03 years ago, education loans were considered only for staff members. Today it has become one of the key revenue sources for banks. Online ticketing leads to closure of ticketing and travel agencies. Social media has become one of the key advertising platforms. Customers analyze the market better than the bankers and demand the highest rates for deposits and the lowest rates for loans. Margins are becoming thinner. Most of the banks in other countries enjoy less than 2% mark up. However in Sri Lanka, banks enjoy about 7% mark up and still grumble about competition. Bankers, are you willing to reduce your mark up to about 3%?

Economists and strategists advice companies and not banks. Hence companies based on their advice, know banking better than the bankers. As a result, banks are reluctantly compelled to accede to their demands.

Society at macro level demands more CSR activities, greater concern for ecology, green marketing, good governance, implementation of triple bottom-line concept paying equal attention to the Planet and the People in addition to Profits. Society demands more funding for research and development (R&D), challenge the financial ratios and to be an ethical corporate citizen in this unethical world. From an antithetical perspective, banks have to consider all their stakeholders and recognize the stakeholders who have greater level of influence and power through stakeholder mapping. Have the banks got the ability to change their strategies and the structure towards these societal demands?

Banking with the poor

Modern day bankers chase "high net worth individuals" (HNI) for deposits, corporate companies and institutes for low risk low margin lending and retailers for high margin lending. Finance companies pursue only leasing and pawning and nothing else. Banks have excluded the less wealthy in the society.

Nobel laureate, Dr. Mohamed Yunus found through his Grameen concept that so called rural poor people have a repayment capacity of over 100%. As per statistics (Care Intl, 2009), over 3 billion people worldwide are considered financially excluded. Targeting the poor and banking with them is a paradox. They are future potential millionaires if the risk is properly assessed and managed. These are potential routes to enhance the savings deposit base. Providing financial assistance especially for the youth and women can transform the lives of these vulnerable people to create another new segment in the society. Blue Ocean strategy can be pursued for this untapped and under privileged segment. For instance MNCs prefer least developed countries (LDCs) for FDIs against the developed nations. They have experienced more potential to maximize their wealth in LDCs due to low labour cost, weak legal systems and location economies. Countries considered to be poorer and problematic, possess diamond reserves. It is reported that the largest Potassium reserve in the world is located in Afghanistan where the annual GDP is around US$ 20 billion only. Similarly an enormous potential lies with poor people who do not have access to banking. Are bankers ready to harness this hidden potential? Are they ready to visit rural villages and transform them for future millionaires? Change in STP (segmentation, targeting and positioning) strategy is a must. Do you believe in paradoxes?

Change in turbulent times

Generally any society experiences four types of markets namely; emerging markets, saturated markets, declining markets and turbulent markets. Banks which fall under the financial sector easily comprehend and make adjustments in three markets, except for the turbulent market where they encounter difficulties.

The recent global financial crisis had a profound negative impact over most of the major banks in the USA and Europe. This crisis also had other consequences such as loss of investor confidence, enhanced regulatory controls and heightened shareholder scrutiny. The shock, losses and the bad debts were beyond absorption. Sri Lankan banks, considering the magnitude of the negative impact in such a financial catastrophe, will find it difficult to overcome with the existing labour regulations and the other conditions. Overtrading should be avoided. Loading the "prime" customer with commercial loans, trade finance loans, housing loans, etc to achieve the annual targets should be discontinued. Bankers should change these trends and understand that after 4-5 years there is a probability that every good customer will become an overdue customer when they reach the "declining" stage in their respective life cycles. Bankers can learn several lessons from the recent financial crisis. Vladimir Putin who is presently viewed as a problem creator, said at that time, *"America is an economic pest in the world".* Putin was correct in this instance.

Hence the proactive change is the best methodology to avoid such a financial catastrophe. Few countries, such as China, Australia, India and New Zealand followed this method and as result, those countries were not adversely affected by the global recession. Hence bankers have to be proactive identifying the probable turbulent times well in advance, mitigate the risks and face the situation with proactive planning.

Having discussed the circumstances that cry for change, the following paragraphs address how the banks may manage and embrace change internally to align with the external changes in the world.

Organizational culture

Culture and change are inseparable. Culture varies from bank to bank. These two attributes are integrated, inter-related and inextricably connected with each other. This is the first and the basic fact that the Bank CEOs and the top management of a bank should understand.

Secondly, attention should be paid to the organizational structure. In this exercise, the leader or the CEO should identify and understand how the structure has been designed, divisions and departments involved, specialized nature of the jobs (if any), span of control, power pockets, linkages, multiple tasks, level of contribution from each division to the bottom-line, non monetary aspects etc.

Thirdly and finally, to identify individuals who are strong in both negative and positive ways. In simple terms this is to identify the individuals who are supportive and disruptive of the change. In large banks this process takes a considerable period of time recognizing the employees as change strategies have to be designed to suit and convince both segments.

Why do employees fear for change?

In a nutshell, employees are scared of losing their jobs, work stations being be re-located or employees being transferred and being compelled to accept whatever monetary benefits (if any) that are offered for redundancy. Sometimes these monetary benefits are grossly inadequate for survival. Especially in the absence of a social benefit scheme in Sri Lanka, employees dread to face unemployment. Employees will have to adjust to the new management, with a different culture, redesigned structure, possible 'gaps' in skills on technical know-how with the state of the art technology, hindrance for career development / succession plan etc. These are some of the natural reasons why workers fear of change and these have to be understood properly. In certain instances, even CEOs are replaced to accommodate change.

Doubts and dilemmas

When the idea and rumours spread within a bank enormous amount of doubts and dilemmas crop up in employees' minds and 'uncertainty' is the word of the day. Especially the employees in the middle management and other grades will pose questions such as, why is it? why must we change? what is the urgency? can we trust the management? who is responsible for this situation? what will happen to our jobs? etc.

The top management should realize that during this time only negative elements get activated to mislead the employees. The degree of negative impact would be further enhanced if the labour force is unionized and the change process would be hindered and obstructed by these elements. This is quite evident in Sri Lanka. As a result, from the outset, resistance to change or total blockade would be imminent.

Communicating for change

"Most of us would rather die than change as cost of change is more than what we can bear". (D'prix)

Official communication to the employees plays a vital role in change. The challenge is to understand their feelings through empathy and rationalize the change and to build the "collective will" to meet new opportunities. The top management should understand the employees' mind and always be mindful of their thinking. How do I feel if it happens to me? Communicating itself would not solve the problems, yet it's vital in building a rapport and consensus which is so essential for a successful change.

Most of the employees are uncertain whether the management would deliver the goods in a successful change because by now they know the decision, yet they do not know what strategies have been designed to overcome the difficulties. Unfortunately what the management does is to focus only on cutting costs, reducing staff etc. But the common sense is that much more is needed than this elementary approach.

Very often management favours maintaining secrecy on strategies as more prudent since disclosure of such strategies would comfort competitors. But what the management ignores is that they cannot further fine tune the designed strategies without getting a proper feedback from the employees, as they are the people who would make the strategies work and cannot be kept in the dark. Getting these people involved to a certain extent would facilitate the change.

Rationalization of change

Why is change needed? This has to be precisely communicated to the workers. Rationalization should be based on three key words namely *substantiation, simple* and *specific*. Leader or the catalyst must substantiate properly without any reluctance and hesitation to convince the employees. He should present facts and figures, customizing the work force giving the analysis, explaining the root causes in simple understandable language. He should be specific in rationalization. ***Why do we need the change? If we do not proceed with the change, these are the consequences. This has to be told and explained clearly and loudly***. Using ambiguous terms such as 'we'll see', 'I'll come back to you', 'That is not necessary for you', etc., will lead to loss of employee confidence when rationalizing and would hinder the change process.

Tell and re-tell

Many top management members do not have the patience to explain over and over, or to listen to their employees effectively. Leaders' attention span is brief as they gain more conceptual skills (if they are true leaders) when they climb the ladder in the hierarchy. This impatience of top management or the catalyst creates more confusion among employees. Meticulously planned and designed changes do not succeed as the impatience of the leadership becomes a barrier to change.

Hence it's of paramount importance that the leadership should have patience even to repeat and answer all queries and doubts raised by the employees and various groups. Reinforcing the change message through internal channels would further strengthen the change process.

Stages in employee response

When communication process commences, employees would start to respond in 03 stages.

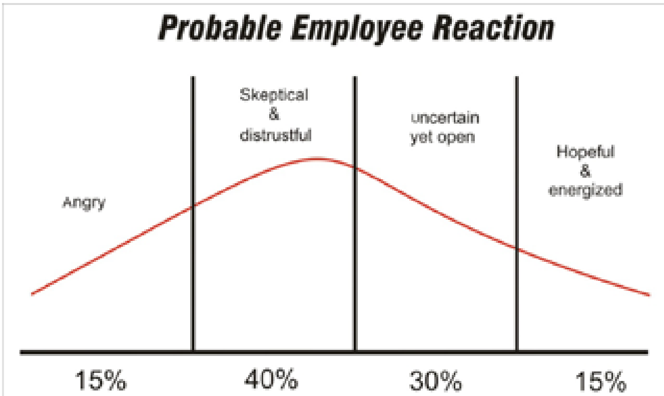
Stage 01 – Shock and belief
Predominantly the following questions will crop up in the minds of employees.
How serious are the threats to my bank?
How did this happen?
Who is to blame?
At this stage, which is the initial step in the communication process, employees try to understand the personal implications of what has happened. What does it mean to me? Is my job safe? Does the leadership have the required knowledge to get us out of this mess? If they do not, then what? etc.

Stage 02 – What to do next?
Do we have a plan of action? The most alarming suspicion for the employee is that if there is no proper strategy to overcome the causes, there will be only fire fighters in which employees will be picked one by one as managers and top management would concoct a strategy on the spot.

Stage 03
This stage is characterized by the natural human desire to do 'something' to solve the problem At this point the hallmark question would be how can I help? Should I contribute in some way to secure my future?
When employees reach this stage only the leader's / catalyst's role becomes important to rationalize, convince, to elaborate the action plan and to answer the questions from the employees. If not, they would be discouraged, de-motivated and demoralized by their helplessness.

Degree of employee response to change

When the change reaches stage 03, top management receives mixed signals feelings of fear, anxiety, support etc with some sort of strong clues on which future strategies could be further developed. Based on research *(Eccles 2001)* the following graph illustrates probable or rather approximate employee reaction for a change.



(Source: Eccles, 2001; Corporate Transformation)

Trust and relationships

The higher the degree of the trust, the higher the level of success. Trust and truth would bridge the gap of doubts, dilemmas and misconceptions. Top management should not have any hidden agenda with the change and importance of developing relationships would be greater in banks where the work force is unionized. Giving misleading information or hiding the truth would not only damage the change process but also push the banks further down from their present market position due to subsequent trade union activities. Even future genuine programmes would be hampered due to loss of faith in leadership. In western countries when analyzing the characteristics of a leader, honesty is rated in first three slots.

"Truth translates into trust. Honest communication in a respectful environment sets the tone of professionalism that would lift the entire team" (Eccle)

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