



Remaking a government-owned giant:

An interview with the chairman of the State Bank of India

Om Prakash Bhatt discusses the transformation of one of India's oldest banks and reveals how he managed to bring the company's 200,000 employees on board.



Roger Malone

Om Prakash Bhatt is intensely loyal to the State Bank of India (SBI). “This was a great bank, and it was seeing relatively bad days,” says Bhatt, who joined the bank in 1972 as a probationary officer and was named chairman in 2006. “They put me in the chairman’s seat, and it was up to me to do something. If not me, who would?” SBI—the country’s largest bank by assets—had fallen on tough times when Bhatt took

charge of the state-owned institution. With roots stretching back to 1806, this stalwart of the Indian economy was losing market share to up-and-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.

The prescription was innovation, but the challenge centered on getting 200,000 workers stretched across 10,000 branches to take their medicine. Communicating the need for change and shaking this huge corporate behemoth from its lethargy became the critical task ahead of Bhatt.

Bhatt, who spoke with *McKinsey Quarterly* editor Roger Malone in SBI's corporate center, in downtown Mumbai, said it's too early to be confident of success, although the bank is slowly regaining market share, posting robust profit growth, and recently became a Fortune Global 500 company. In this interview, Bhatt also describes the bank's continuing efforts to improve performance.

McKinsey: *What was the situation with State Bank when you were named chairman, in 2006?*

Om Prakash Bhatt: The bank had been losing market share steadily for more than two decades. In the early 1970s, we had about a 35 percent market share, but that had fallen to about 15 percent. During the early years of this century, the decline was getting worse.

Also, when I joined 37 years ago, the bank had an influential voice in India—in the economic sphere, in the industry, in government circles. It was an opinion leader. But by 2006, 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.

In addition, the bank's employees were not energized anymore. They had lost their pride and sense of belonging. From the very top down through the branches, everybody was pulling in different directions. The people weren't performing poorly as individuals; they just weren't aligned along a common set of objectives—no goals, no vision, no commitment. I didn't like what I saw.

McKinsey: *How did this come to pass?*

Om Prakash Bhatt: 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 and having outdated technology, a suspicion of trade unions, and no competitive spirit.

Before liberalization, most bankers in India were administrators with little discretion around decision making. The Reserve Bank¹ would decide whom to lend to, how much, and at what rate. Everything was predetermined. You did have some freedom, but it was limited. The public-sector banks were not really equipped to predict the future, much less to plan for it.

The State Bank was conscious that things were slipping away, and it did try to respond. There was a reorganization effort, but all that did was add another layer of management, which added to the response time within the bank. Signals were getting a little confused, as they were translated from the corporate center down to the branches. Feedback from the branches to the center was weak. 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. Meanwhile, the market was moving away.

¹The Reserve Bank of India is the country's central bank.

Om Prakash Bhatt



Vital statistics

Born March 7, 1951, in Dehra Dun, India

Married, with 2 daughters

Education

Graduated with BS in physics and MA in English from Meerut University (now Chaudhary Charan Singh University)

Career highlights

State Bank of India (1972–present)

Chairman (2006–present)

Managing director (2006)

Managing director, State Bank of Travancore (2005–06)

Chief general manager, north east circle (2004–05)

Fast facts

Chairman of the banking and financial institutions committee of the Federation of Indian Chambers of Commerce and Industry (FICCI)

Director on the board of EXIM Bank and General Insurance

Member of the boards of the Indian Council for Research on International Economic Relations (ICRIER), Xavier Labour Relations Institute (XLRI), Institute of Banking Personnel Selection (IBPS), Institute for Development & Research in Banking (IDRBT), Khadi and Village Industries Commission (KVIC), and National Cooperative Development Corporation

Business Standard's Banker of the Year for 2006–07

CNN-IBN Indian of the Year 2007, business category

Asian Centre for Corporate Governance & Sustainability and Indian Merchants' Chambers' Transformational Leader Award 2007

Asiamoney's best executive in India for 2008

McKinsey: *What opportunities were you missing?*

Om Prakash Bhatt: Two significant segments were slipping away from us. One was large and midsize corporations. We had always been the king of this business because there was a time when the main thing a corporation needed from a bank was a large chunk of money, and we were uniquely placed to provide that. We ran a huge distribution network and would mop up large sums of money from our depositors, which 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 we didn't have. Naturally, these businesses started moving away from us.

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

salaries workers or even self-employed. For these youngsters, State Bank was not the first bank of choice. When younger people started becoming more affluent, we didn't notice. We didn't offer, for example, personal loans for buying a car or a house, for furnishing a home, for taking a holiday, or for whatever reason. Psychologically, it was easy for these young customers to veer toward the more flashy private-sector and foreign banks, rather than the relatively dull and dowdy public sector. Today, these two segments represent significant business in India.

McKinsey: *How did you face these challenges?*

Om Prakash Bhatt: Immediately, we did several things. We had a voluntary retirement scheme, which meant some of our best people, those confident of getting hired at private-sector or foreign banks, were leaving us in droves. Many of our talented workers were taking the retirement offer and then going to the competition. We needed these people, so I ended the program. I also stopped the rollout of the centralized computerization system. Problems with the system—poor connectivity and its complexity—meant that it was actually damaging our ability to serve customers. It could take two hours to open an account. We were losing business, and the staff was getting frustrated. I also shuffled a lot of portfolios in top management.

All this was primarily damage control.

McKinsey: *But these actions didn't touch the doldrums that had settled over the bank. What did you do there?*

Om Prakash Bhatt: If you look at any transformational effort at any institution across the world, most of the things people have done are common sense. There is no magic to it. The secret is how you do it, how you build a team, and how you build consensus around what you're doing. Only then are you able to execute your plan. I had a vision for the bank, but I needed to communicate it.

I 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. During my second month, when I thought I had a critical mass who understood the problems at the top level, I held a conclave where 25 of the bank's senior leaders sat together for five days talking things over.

McKinsey: *How did this meeting help to bring about high-level alignment?*

Om Prakash Bhatt: It was very different from anything in my experience, as well as theirs. I started by showing a movie, *The Legend of Bagger Vance*. It's about a golfer who has lost his swing. A golfer's swing is not an intellectual exercise. It demands harmony of your entire being: heart, mind, and body. If you lose your swing, it's a challenge to find it again, but if you do, you can be as good or better than you were before.

I created a context for the movie, bringing in stories from the Bhagavad Gita,² which teaches how karma and excellence can be their own reward, and other Indian stories. I would stop the movie just to make a point or to illustrate a theme: finding your swing, how different golfers have different styles, how others can help you. I tried to draw parallels between the movie, the Gita, the condition of State Bank of India, and the mind-set of its officers.

Just showing the movie was so unusual that it created a different kind of psychology. Afterward, we had four days of structured discussions, which always returned to the themes that came out that first night. We talked 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. All this took place in the context I set with the movie.

The next day, for about two hours, I discussed the status of the bank, a speech later dubbed

²The Bhagavad Gita, or "Song of God," is a traditional Sanskrit tale about a conversation with the Hindu deity Krishna.



my “state of the nation” address. Before, we were always told that everything was hunky-dory, but I wanted to be brutally honest. When a company tries to hoodwink itself, everybody becomes a partner to institutionalized hypocrisy, which is what had happened here. Feedback and dissent were suppressed, or at least not encouraged. And here I was, willing to sit there and expose my ignorance and lack of experience but also—despite it all—to show a burning desire to do the right thing and to take everybody along. I think it took everybody by surprise. The idea was to create 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.

McKinsey: *What practical measures came from the conclave?*

Om Prakash Bhatt: We left with a 14-point agenda 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?

In the past, if there were ever discussions about how to take the bank forward, it would stop with a discussion around the business. But our agenda went beyond that. Our second group of ideas focused on how to facilitate these businesses. We looked at business processes, risk management, performance management, technology, incentives—all those things.

The third area, hitherto taboo in the bank, centered on people. What is it that demotivates the people? And what can we do to change that? We talked about training and recruitment, but we also discussed motivation and whether we needed a different organizational culture, role modeling, communications strategies, and leadership. Together, these measures became the grand strategy that encapsulated our new vision.

McKinsey: *Once you had alignment within your top team, how did you reach out to your massive workforce?*

Om Prakash Bhatt: That is one of the things we discussed early on. We were 25 people at the conclave, and we were feeling great about our new ideas. But we have 200,000 people in the bank. How do we communicate these ideas to them? We now knew what we wanted to do, but we 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 they were told what had 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. If you’re a chief general manager, you oversee 500 to 1,000 branch managers and have a tenure of about two or three years. In your tenure, you might meet 100, 200, 300 branch managers, but you don’t meet them 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 chief general managers to hear the issues from the front lines, establish rapport, and understand the pulse of the bank better.

And we weren’t done yet. The conclaves continued, bringing together senior managers again and also lower-level leaders. In groups of 50 to 100, I met with all the assistant general managers in closed-door, no-holds-barred conversations, where my primary role was to listen to their perceptions of the bank, its issues, and what they thought we should be doing.

McKinsey: *You also had to bring the message to the trade unions?*

Om Prakash Bhatt: These are important stakeholders, and I brought senior representatives from the unions and officers' associations together in a meeting similar to the management conclaves. I spent four days with 30 leaders from across the country. Some of my best advisers at the bank warned that the leaders weren't trustworthy and could be disruptive, but by being different and asking them to a conclave—like monks in a cave—I built up huge curiosity. 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.

McKinsey: *Beyond this massive communications effort, what changes have you brought to the bank?*

Om Prakash Bhatt: Within my first few months as chairman, we created three new business groups. One was the treasury, which had always been a residual function of the bank. I wanted to convert it into a profit center under a deputy managing director, who would undertake all the tasks that treasuries in large banks normally do.

I also created the rural business group tasked with reaching out to 100,000 unbanked villagers in two years, in addition to our normal agriculture business. Rural areas require a different focus, product range, and strategy as

well as an outsourced model led by technology and the lowest costs possible. Apart from our traditional focus on development banking, most of the future growth of India will come from prosperity in rural areas. We need to capture this space and position the bank for the future.

The third group, corporate strategy and new business, identifies financial-services opportunities in areas in which the bank isn't active or is doing poorly and develops these new products or businesses. I explicitly tied the group to corporate strategy to show the strategic importance of new businesses and to make the group more powerful and more relevant. It has already improved our Internet offering, for example, launched wealth-management services, and helped set up a joint venture with Société Générale to offer custodial services.

McKinsey: *Overall, have your efforts been successful?*

Om Prakash Bhatt: We have stemmed the tide. We are no longer losing market share, and in fact we gain a few basis points each quarter. I used market share as a rallying cry within the bank because that is something everyone understands. They know what to do: get more business. 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, we became number one in India in terms of market cap, overtaking ICICI Bank.³ We became India's most valuable bank the day I received CNN-IBN's Indian of the Year award. State Bank is now the country's 5th largest company in terms of market cap, from 14th in 2006. And internationally, we've entered the Fortune Global 500. Customer service is also improving. In 2007, we were rated the best bank in India in terms of customer service, brand loyalty, and branch strength.

In the past year, we've also raised \$4 billion through rights issues—\$1.5 billion from the public

³ICICI Bank is India's largest private-sector bank. For more information, see Leo Puri, "The CEO as CIO: An interview with the head of India's top private bank," mckinseyquarterly.com, March 2007.

and \$2.5 billion from the government. Normally, the government only gives capital to banks that are sick, but the fact that the government bought the story of SBI from me and subscribed to a rights issue from a healthy bank is huge. Looking back, the timing could not have been better. In today's environment, banks badly need liquidity and capital, and almost preemptively we secured these in fair measure through the rights issue.

McKinsey: *What are you doing to sustain these changes?*

Om Prakash Bhatt: We've implemented a new program called *parivartan*, which means "transformation" in Hindi. It is a two-day program designed to build awareness. There is no preaching, no teaching involved. Rather, it's a workshop designed to create awareness around the need for change and as a call to action or duty among all employees. We took about eight or ten months to build the program inside the bank. We trained the trainers carefully, and we practiced every nuance, every mannerism, so the quality of the program was uniform across the country.

The idea behind *parivartan* was to sensitize everyone at the bank to the need for ongoing change. We have 60 or 70 training centers across the country, and we stopped all other training to make room for this program. In 100 days, we covered everybody. Any slower, and the skeptics might have overwhelmed the conversation.

Parivartan brought new energy across the bank—more pride, more involvement, and more joy. There are people who participated in the program who confessed that they were driving the customers out of the bank. But now, they said, they'll make amends. Across the bank, there's a perceptible, qualitative change in

the kind of customer service the bank renders. All the success—business, getting awards, raising our rankings—came only because we brought 200,000 employees on board through *parivartan*.

McKinsey: *Where would you like SBI to be at the end of this transformation?*

Om Prakash Bhatt: I would like us to be among the top 20—if not the top 10—banks in the world. I'm encouraged by what has happened, but I know that the climb ahead is far steeper and more difficult. I would also like our balance sheet to be at least 25 percent international business, compared with around 10 percent today.

I also want to extend our reach within India. I want us to be a bank for every Indian, not necessarily through a branch network; technology and outsourcing should enable this. I want us to be available to every Indian, from the poorest of the poor to the richest of the rich, to both individuals and institutions. Whatever they need, the entire range of banking and financial services, we should be able to provide it.

And I want us to be where we can serve India Inc., whether it's through acquiring resources, technology, products, or skills. We don't need to build a footprint in the world just to be global; I want us to be able to serve our primary clientele—India and Indians. So wherever I go, I keep this in mind. How does it strengthen our ability to serve India?

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. 