

Stage 1: Understand the client scenario and create a case scenario

Lending Inc

As Kalpana Suri walked into the analyst meet the question haunted her once again – ‘As the CEO of the corporation Madam, how do you plan to grow beyond the 5 – 8% growth that you have been projecting over the last 4 years?’

Kalpana was the CEO of a large infrastructure lending institution in a developing economy named ‘Lending Inc’. The organization was started by the Government and was later hived off in a disinvestment spree that the government undertook in 1990. Typically the organization used to lend upto USD 100 million to a single borrower, who were constructing large scale infrastructure projects. Overtime as the economy progressed the fund requirement of infrastructure companies became large and Lending Inc become one of the lenders in a consortium, rather than being the lead financial partner as it was earlier.

The large banks got into the fray and were providing more funds to the Infrastructure building companies, than the USD 100 million that Lending Inc could provide. Private equity players got into the space, large funds started lending and Lending Inc was caught in a trap that was created long time back.

When Lending Inc was in 1970, USD 100 million was a large amount for the infrastructure projects that were underway at that time. However, with times changing this amount became a bottleneck. Kalpana also knew that there is a limit to which she can grow the fund based business. She will have to look at the alternate business models.

Kalpana had been in talks to acquire several companies that were in the asset management space, advisory space and private equity space, so that she can build a larger portfolio for Lending Inc. However she had other challenges to deal with.

Economic environment

The economy was growing at a rapid pace and was close to becoming a USD 2 trillion in size. Infrastructure was considered as the singular bottleneck and the Government was working overtime to clear the projects in the pipeline. Demand for funds was bound to increase in the near future.

Competitive scenario

Larger banks were the prime institutional lenders and Lending Inc was once of the partners of the consortium. If Lending Inc were to position itself as a larger provider of funds and a flexible partner focusing on providing solutions than debt financing only, they would be seen as a competitive player by the larger banks and therefore can be negatively impacted and a strategy to address this needed to be worked out.

Organizational challenges

Lending Inc, traditionally comprised manpower that was largely trained to assess projects and disburse funds. The job primarily consisted of assessing projects, identifying risks and managing loans. The manpower was largely engineers and loan sanctioning officers.

The new avatar of Lending Inc would require specialists like investment bankers, management consultants and specialists who could raise funds from the global markets.

This would bring a clash of cultures and would give rise to conflicts. Improper handling of this would mean that traditional business of debt financing would be seen as less glamorous counterpart and the new business lines would be the smarter cousin. As 90% of the organization revenues still came from the debt financing business this would demand substantial change management skills and time for Kalpana.

Kalpana was very clear that the future would be in the fee based services. Shifting this focus of the organization raised more questions than answers. Some of the questions were:

- How to develop a shared vision and a complete buy in for the changed organization, so that she can move with speed?
- How to drive the one Lending Inc culture amongst all the businesses as their strength was in synergies across the lines of businesses?
- Should the existing manpower be trained to staff the new businesses? This might require substantial time and money and the outcome might not be worth it?
- If new manpower is hired with relevant skills as the new businesses require, there is a high possibility of a clash between the two cultures?
- She had two more years before she retires. Should she attempt this at all? Incase the plan does not work out, she will be going down in history as a poor leader?
- If this has to be done, then how should she manage this change so that she is freed from the risk of failure?

Stage 2: Extrapolate case scenario to a generalized problem situation

Lending Inc is facing a problem that is a complex one. It is important to first try to generalize the problem and thereafter attempt at solving them one at the time.

Generalization of the problem shows four evident problems:

1. How to seize the opportunity in a rapidly developing economy and thereby changing existing paradigms given that the organization is growing steadily and most of the people are fine with that growth rate?
2. What needs to be done to reverse a possibility of degenerating to one of the many situations that the firm might face in the near future and establish a firm hold on the evolving market structure?
3. How to identify areas where re-skilling manpower is required and shift to a structure that does away with the conflicts? What would be the plan B to be ready in case existing manpower fails to rise up to the challenge?
4. How to commit personally and plunge the organization in the transformation and convince the board of the same. In case of failure, the organization will be left in tatters and in case of success – most probably the results would be seen after a period of 3 years and in all likelihood the existing people would have retired by then.

Stage 3: Solve the parts and aggregate to find solution to the generalized situation

Empowered teams were formed at Leading Inc. to study these four problems in depth and arrive at the organizations they know who have faced similar challenges before and have resolved them. These teams thereafter worked together to arrive at solutions that would best fit their company. In case any specific aspect needs to be fleshed out the empowered teams were given the responsibility to find out consultants who can do the same. It was made very clear that the overall responsibility lies with the empowered teams and not with the consultants.

Rapidly developing economy provides great opportunity for businesses to achieve growth. Some of the organizations that have been able to achieve meteoric growth in India are Infosys, Wipro and TCS. Other such companies are LG, Haier and Lenovo. A study of these organizations will provide interesting aspects for Lending Inc.

Managing a turnaround is a very critical skill that an organization must possess. This is largely linked to the organizations resilience and the chief executives clarity on strategy. Some such organizations that can be studied are Xerox - an organization that transformed itself to the document company; IBM – a hardware company that now exists only as a consulting and IT services and solutions company; FIAT – a company that is engineering a total breakthrough in its strategy and staging a big comeback. Critical aspect here is to find out the core capability of the organization and significantly enhance the strength and use as a competitive advantage.

While people are the prime assets, often complacent people are a huge liability for an organization. Significant amount of time and energy is to be dedicated to change their behaviors and habits and this aspect is often the single biggest challenge. Moreso in highly trade unionized organizations handling this aspect well can be a make or break decision. However if significantly new skills are required often the old people might not be of much help and that's the reality that will have to be faced.

Top leadership team often loses the zeal to spend time and energy into long term pursuits. Often they like to maintain status quo and take time easy till retirement. It is important for the CEO to rally a team of enthusiasts and lead a powerful transformation management team. This process has to be driven with consistent systems and practices and substantial change in communication and behaviors of the senior leadership.

Stage 4: Design specific solution

Having successfully found out the answers to the various challenges, these teams had a week long facilitated meeting where they stitched their solutions together to arrive at an organization wide solution that was a consensus but not a compromise. The solution was again presented in the same format in which the case was analyzed.

Economic environment

It was clear that the organization has to build sufficient resources so that the large projects can be funded by them. This involved significant risk in the short term as there weren't enough capital available to do the same. The team set a target of one year to overhaul the image of the organization and raise at least INR 1,000,000 crores (USD 200 billion) from the global marketplace. Since India was positioned for growth and required substantial investment raising such a capital amount was possible, though difficult. Such a huge amount of fund raising would also mean that sufficient projects are there in the pipeline for disbursement and providing sufficient returns to the investors.

The regulatory permissions needed to be studied and a dedicated team was appointed to do the same.

Competitive scenario

Lending Inc. had a wealth of knowledge being in the infrastructure business for over 60 years that was more than any other competitor in that space. The knowledge was not documented and translated into expertise that could then be of significant leverage for the organization. A knowledge management division was formed that would document knowledge and provide strategic edge to the organization. For the current year, the strategy would be to begin making larger commitments to projects and choosing them properly. The move would be to shift away from debt financing to project financing and also look at equity stakes in the projects. The idea was to build a recurring income model rather than only debt based models.

This would mean that new frameworks would require to be evolved to assess risk and it was supposed that the historical data would help in gathering this information.

Organizational challenges

This was seen as the single largest challenge to be circumvented. The senior leadership would see new faces and decision making would move to empowered teams. The re-skilling required everyone to be aligned to change and transformation. The existing learning and development system needed to be overhauled and driven by the head of a business. Since new capability needed to be built in the organization, it was essential to tie up with a good business school that can lay the foundation of the programme.

These programmes were also the forum where the empowered team suggested the new transformation and vision to the larger audience and got feedback and also acceptance from them.

The senior leadership team had a closed door meeting and everyone defined a simple, new and powerful shared vision. They committed their time to the large scale transformation and agreed to drive the vision and resolve conflicts that came in the way in the larger interest of the organization.

Stage 5: Implement the solution

A crisp 30 minutes presentation was prepared and thereafter the senior leadership team travelled to every location where offices were there and gave a presentation of the transformation. The presentation focused on the economic environment, competitive environment, response of Lending Inc – businesses and evolving structures and organizational challenges. Every member was asked to contribute in the manner feasible to make this turnaround possible. The implementation reviews were held every 15 days to ensure that the plans were on track. The larger deliverables were broken down to minutest possible details and deadlines were set to be driven by the lead anchor of the empowered teams.

It was made clear the next two years would require change in the way the organization works. New processes, new technology, new expectations and new pressures would come on the way of every employee right from the CEO to the lowest down employee.

At the end of the presentation to the Board, Kalpana Suri walked out with applause and an assurance from the board that if things went on track, she and the management team would continue for the next five years.