

BANCON Talk -November, 26 2007 – Dr. (Prof.) P N Khandwalla

1. Building a high performance organization is the top priority according to a survey of banking executives in India done by Aneeta Madhok.
2. It is not too difficult to design a mediocre organization. Build in text-book professional management systems, benchmark with the industry leaders and adopt their management and technical systems, and you get a mediocre organization. But in a competitive environment, every organization in the industry may do this, and the organizations are likely to start getting a declining mediocre performance.
3. What confers sustainable competitive advantage is to go beyond imitation to innovation. But there is high mortality rate for innovations – according to US research, only 2% of new product ideas ever get translated into winners in the market place. We need to design organizations for innovativeness. We need to build organizations in which technical and managerial innovations are not only a way of life, but the systems and processes are so robust that most of the innovations succeed.
4. It requires one kind of organizational design to produce creative ideas, and another to ensure that they fructify into successes. The trick therefore is to design organizations with the capacity for both producing innovative ideas and implementing them successfully.
5. Global research, including my research in India and abroad suggests that such design is possible, but that it involves some tough choices. What are these choices?
6. The first choice is: do you wish the organization to be a me-too organization or a distinctive or even unique organization? The quest for distinctiveness will stimulate innovations; the quest for being the best in a comparison group will mostly yield better practices, but seldom innovations. Distinctiveness comes from distinctive values that are practiced, a distinctive vision of excellence, distinctive style of leadership etc. Examples are SBI in the 1980s, Bank of Baroda today, ICICI in the 1990s, Grameen Bank of Bangladesh.
7. The second choice is: do you want to grow and compete through innovation-based strategies, or one of the strategies suggested by Michael Porter – product differentiation, aggressive pricing through low costs, brand building, etc.? Innovation-based strategies yield a rich harvest of new ideas for growth and competition, while one of the pure strategies yields good practices limited to the focus of the strategy such as cost cutting or building a brand or differentiating the product. Competing and growing through innovation requires such efforts as innovating new, pioneering products that confer the first mover advantage, innovating new products or services for neglected market segments, innovating entirely new applications for existing products or services, tailor-making products for the needs of individual customers,

- intrapreneurship to develop far-out new products that may not even be related to the industry, etc. Examples: ICICI Bank's foray into consumer lending in the 1990s; keiretsu banking in Japan where a bank identifies innovative projects round the world and then tries to interest consortiums of entrepreneurs to go for these projects with the bank's funding; development of banking products for not only the rich, but as in the case of Grameen Bank, also for the poorest.
8. Banking is well-known for its conservatism. But we have examples, both in the public sector and the private sector, of entrepreneurial management. So do you opt for an entrepreneurial style of management in which you take big risks but work hard to minimize them through analysis and research, entrust responsibilities to dynamic managers, stress getting results rather than sticking to irrelevant rules and procedures, solving problems in a boundary-less manner rather than hierarchically, stress expertise in a given situation over hierarchical position, stress teamwork over individual accountability, and so forth? Or, do you continue to be conservative and bureaucratic? Entrepreneurial style produces a stream of successful innovations; conservative-bureaucratic style produces a flood of rules and procedures.
 9. In terms of organizational structure, the choice is between retaining a functional structure, or if yours is a diversified organization, an SBU-structure, but with each SBU being functionally organized, and a structure in which profit and responsibility centers are drilled down even to lower levels like branches, and even service departments are converted into profit centers through the transfer pricing mechanism. If there are numerous profit centers, each headed by a dynamic, energetic person, the frequency of successful innovations is likely to be much greater than in an essentially functional structure. 250 SBUs and 2000 profit centers in Siemens-Nixdorf.
 10. When you want to innovate, do you assign innovations to cross-functional or inter-departmental project teams headed by entrepreneur types who are also highly effective leaders, or do you assign the projects to the heads of departments in whose jurisdiction the project falls? Cross-functional teams headed by entrepreneurial leaders are likely to yield a whole lot of subsidiary innovations that minimize risks and maximize benefits. Assigning projects to departments is likely to narrow the consideration of options, especially radical options, and lead to mediocre results.
 11. The high road to innovativeness is the extensive use of brainstorming, questions checklist, attribute grafting, reverse brainstorming and other creativity techniques for generating out-of-the-box options; the low road is to over-rely on analysis and the generation of familiar options.

12. In terms of human resource management, the choice is between textbook or best industry practices sort of me-too human resource management, or an HRM that is anchored in a bold vision of excellence, and one that sees its main job as identifying, grooming, and placing in growth trajectories dynamic, entrepreneurial leaders who bring tremendous enthusiasm and excitement to their tasks and team members.

To summarize: the design for innovativeness requires an organizational quest for uniqueness through distinctive vision, values, and practices, an innovations-based growth and competitive strategy, an entrepreneurial style of management that favours bold but calculated risk-taking, an organization structure characterized by numerous profit centers headed by dynamic leaders, cross-functional teams to implement innovations, extensive use of brainstorming and other creative problem solving techniques, and the identification, grooming, and fast-tracking of dynamic, high potential leaders. Is such design possible in the Indian context, and does it work?

My research on 66 Indian organizations suggests that such a design is not only possible in India, but that it yields both high degree of innovativeness, and also comparative performance excellence. I measured the extent to which these organizations' competitive and growth strategies, structures, management styles, ideas generating practices, and innovations implementing methods were innovation-supportive both at present and 3 years earlier. From this it was possible to estimate the extent of change in organizational designs. I similarly estimated the extent to which the magnitude of innovation success had changed, as also the magnitude of change in the comparative performance of each organization. The correlations of organizational design changes with change in innovational success were all large and positive, ranging from .38 to .80. The correlation of change in innovations success with change in comparative performance was also large and positive (.63). Thus, the research supported the model that if we change organizational design in the way I have indicated earlier, this would tend to raise both the rate of innovation and the success rate of innovation, and this in turn could lead to all round improvement in performance.

Tom Peters coined the slogan "Innovate or perish" for our turbulent times. I would like to make an amendment: "Re-design the organization for innovativeness and prosper."
