

A Restructuring and the Consequences

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Abstract

The case deals with the changes made by a new CEO who had recently taken up the job in India in an international bank. The changes he made were in his own office but affected the four Regional Managers who reported to him. A short mention is made of the changes in the Indian banking scene at the beginning of the case and how these affected the Indian and international banks; the case describes events which happened in the early 1990s. The discussion point of the case is the management of change and how changes can lead to unforeseen consequences if the process of change is not thought through thoroughly and changes are made in a hurry. The importance of cross cultural sensitivity in terms of being courteous to people also comes out in the case as the CEO who was British had to tackle Indian managers which he did with great unpleasantness, along with the necessity of imparting this sensitivity to incoming international managers. (item 2 of the Excel sheet). But the significance of change management is the fulcrum on which the case rests.

Key Words: restructuring, reporting levels, CEO's role, changes in the banking industry,

The Bank of Taiwan – an Overview

Note to students - this case is based on actual events, which happened in Bombay in an international bank in which one of the case writers worked for over two decades. However, the names and identities of the bank and individuals have been disguised. The description of the events in the case reflects what actually happened.

The Bank of Taiwan is a well-established international bank with a presence in India of over 135 years. Prior to 1980, Merchant Bank of Bombay, Imperial Bank of the United Kingdom, and Bank of Taiwan represented the Bank of Taiwan Group in India. In the early 1980s, the Bank of Taiwan took over the assets and liabilities of all these banks along with the staff of the erstwhile independent banks.

A big advantage for the Bank of Taiwan lay in the fact that it had executives working in the bank who came from all parts of the world (International Officers). They brought their unique skills to the operations and made the bank truly international. Domestic operations were mainly in the hands of Regional Officers. Regional Officers were mainly confined to a particular region – e.g. Malaysia, Singapore, India etc. Later on, the bank had a ‘mixing’ of the two cadres and many Regional Officers were sent abroad as International Officers.

Strengths and Weaknesses of the Bank of Taiwan

The main advantage of being a foreign bank operating in India was that the remuneration paid to officers was much higher than that paid by the Indian banks. This meant that the bank automatically attracted good professional bankers who wanted to join the bank. The bank also as we have seen, had a cadre of International Officers who were posted to India for around three years before being transferred to another country. The experience brought by these officers was invaluable and supplemented the wealth of experience already existing in the bank. Another strength was that the bank had access to all the latest technological developments which were provided by the Head Office. It also had access to the latest developments in systems which also came from Taiwan in lines with the Head Office’s policy of making all new developments available to all branches globally.

The main weaknesses of the Bank of Taiwan were that being a foreign bank, it was not allowed by the Reserve Bank of India to open branches in new cities freely. This naturally affected the profitability of the bank as its operations were confined to the four major cities in India, i.e. Bombay, Calcutta, Delhi and Madras (now called Chennai) (item 1 of the Excel sheet). The route for promotions was also limited because the number of branches were very limited. Promotions were therefore supplemented by short cross postings to other countries, though not as an International Officer. That as we have seen, came later.

These weaknesses did not apply to the Indian banks as they were allowed, in fact encouraged, to open new branches as India was still an under banked country. This they did without hindrance and their visibility went up as a result. But they had other problems some of which we have elaborated in the first section.

Structure of the Bank in India

Because of the stringent controls by the Reserve Bank of India on expansion, the operations of the bank were limited at the time of the events described in this case to the four main cities. The Area Management Office was located in Bombay and the CEO and the CEO’s staff operated from this city. The CEO reported directly to one of the Group General Managers located in Taiwan; there were four Group General Managers who between them controlled the global network of branches of the bank; they reported to the Deputy Chairman.

The Group General Managers were responsible mainly for the operations and the lending portfolios of the various branches of the bank. In addition, there was a Group Staff Controller again based in Taiwan who also reported to the Deputy Chairman. His job was to advise on the postings of the International Managers and review recommendations for their promotions or initiate the promotions himself.

In India, the CEO was invariably an International Officer. The Regional Area Managers in the four cities reported directly to him. These four were Regional Managers (Indians). The

CEO was responsible for setting strategy and ensure the growth in profitability of the four branches. He was also ultimately responsible for the lending portfolios of the four branches (in terms of quality and risk). The CEO was also personally required to complete the annual performance appraisal forms of the four Regional Managers. In short, he was the be all and end all of banking as far as the Regional Managers were concerned and they paid a lot of respect to him as he could make or mar their careers. The CEO had his hands full because of these onerous responsibilities but matters were running extremely well. India was slowly becoming more important in the global map for the bank in terms of the annual profits remitted to Head Office. India was no longer 'petty cash' as one Group General Manager had famously said a few years ago. Those were in the days when foreign exchange reserves were also low, which added to approvals being delayed by the central bank for the remittance of profits.

The Head Office of the Bank realized that a new type of leadership was needed in India, and decided to send Terence (Terry) Dobby as the CEO to Bombay. This was a routine change of CEOs as the term of the current CEO was over – in fact, he had stayed on for six extra months because no one was immediately available to be sent to India. The choice of Dobby was a slightly desperate one but no one else was available. It was desperate because in spite of Dobby's 30 odd years with the bank, his colleagues described him as having a below average intellect, with no people skills and only a hazy idea of banking. He was a surprising choice, to say the least, to be sent at a critical time to India. He had been posted to India when he was in his late twenties and so considered himself an old India hand. Dobby belonged very much to the old school of bankers and he landed in India with the express purpose of 'shaking up the place' as he put it to his friends before he left for India to take up his job as the CEO.

The Meeting

Dobby also belonged to the cadre known as International Managers in the bank. Dobby had been on leave when the news first came to him of his Indian posting. He was about midway through his leave when he was asked to come to the bank's London office to meet the Group Staff Controller, Stan Griffith who operated out of Head Office in Taiwan, but was in London on an official visit. Griffith was accompanying the bank's Chairman Sir John Reddington-Savage and they were at the time visiting all European branches to evaluate their banking strategy and consequent staffing needs. Dobby had earlier been given a guarded account by Griffith's assistant of what was in store for him when he would later meet the Chairman and Group Staff Controller. He was pleased with the prospect of working once again with the natives (as he put it to himself). His leadership style was brash and bold and brooked no advice from his immediate subordinates. He only required his subordinates to carry out whatever orders he gave, unquestioningly.

The Group Staff Controller's was a coveted position as he wielded considerable influence on the career of International Managers. Griffith was a career banker known for his fairness and integrity and had spent 28 years in the bank in various countries and positions. This would be his last posting as he had only two more years to go before retirement. He meant to make use of these years to specifically ensure that the emerging economies in which the bank operated

were staffed by competent bankers who could capitalize on opportunities. He was also a shrewd judge of character which was an asset in his job. He and Sir John had known each other for the better part of two decades during their tenure in the bank and, though Griffith was senior in age, they were good friends and over the years had grown to trust each other's judgment on banking and people related matters. Sir John was an extremely shrewd and competent banker, and Griffith respected his knowledge and strategic vision which came out clearly in the bank's board meetings. Sir John in turn, gave Griffith considerable leeway in his handling of staff matters as he knew that the older man could be relied on to make competent people judgments which were unbiased and in the best interests of the bank. They were both (Griffith had asked the Chairman to be present when he spoke to Dobby) sitting in the offices of Paul Lamb who headed the UK operations, on a bright Monday morning in August, waiting for Dobby to make his appearance. The London office of the bank was located in Gracechurch Street in the heart of the square mile. It was a beautiful building with a very imposing banking hall which impressed anyone walking in, even after their first visit. Next to it was the 'The Jamaica', a pub which was very popular with the staff of the bank and those from nearby companies. Both of them looked worried. They had been talking for about an hour about the Indian posting over cups of coffee. "Look John," said Griffith after a minute's silence during their talk. "I know and you know that Dobby is probably the last person we should send to India. We both share the same views about him. But we do not have a choice seeing that our first three candidates cannot join."

"I know you would have thought this through, Stan" responded Sir John. "Dobby is my last choice but we need India now. That country is critical to our operations in the region. And the current CEO has overstayed his term by six months as it is." At this moment Lamb's secretary, Belinda Monteiro came in and told them that Dobby had arrived and was waiting outside.

"Please do send him in, Belinda," said Griffith. And then in an aside to Sir John, "let me do most of the talking." Dobby came in and was greeted by the two men reasonably cordially. "Well Terry," began Griffith after the preliminary courtesies, "as you may know, we are looking at you to head the Indian operations, and seeing you were posted there earlier, we thought you would be the ideal choice. He struggled a bit to say the last bit but went on. "You know that the liberalization process is in full swing there. The problem is that this has opened up the banking sector and we are being aggressively attacked by the Indian and foreign banks there. New banks are opening branches from around the globe and the Indian banks are also becoming more conscious of the word 'profitability'. This is something new and we do not wish to be left behind in that region. You know that the Indian profit remittances have been picking up dramatically."

"Don't give it a thought", said the irrepressible Dobby, "I know how to tackle all these problems as you call them. I have a few ideas on what to do and you will hear from me shortly after I have taken charge," said Dobby.

"Look, please be careful of what you do there, Terry," said Griffith. "The place is a minefield now and we want you to make sure we have contented officers there. Anyway you have John Humphreys there to help you. He is still the All India Manager – HR and Admin and has been there for over two years. He reports directly to you. You know him. And you take over from Selby – you have a takeover period of around five weeks. We reckon that should be sufficient for you to be in the know of things."

"I really don't need that much. I know the place like the back of my hand."

"We'll take a call on that later," said Sir John who was beginning to get annoyed at Dobby's breezy and casual manner. "I gather your leave is almost up. Send us your strategic plans for

India quickly and keep in touch. Have a nice stay in India. Don't envy you the weather there, though."

"Yes, and we want to see some progress in about three months. And work closely with Humphreys and his team. I gather Humphreys is now reasonably familiar with how things work in India," added Griffith.

"You know I'll do my best," said Dobby.

"That," said Griffith to Sir John after Dobby had left the office, "is probably the worst thing that can happen to our Indian operations." The Chairman looked grim and nodded understandingly.

Dobby landed in Bombay shortly after this meeting. The outgoing CEO, David Selby came to meet him and took him for lunch at the Bombay Gymkhana club on the next Sunday. Selby tried, during lunch, to tell Dobby about the problems he would encounter, but to his surprise found that Dobby was not too keen to get into any detail. After some time he gave up and focused on generalities. In fact, Dobby had already decided that one of the first things he would do would be to restructure the bank in India. He wanted as he said 'quality time' in which to formulate strategy. He had come across the phrase in some book on management and it had impressed him. But he did not wish to share any of his ideas with the outgoing CEO. Later on Selby would tell Humphreys that his new boss seemed to know all the answers. "Just make sure he does not do anything to pull you down," cautioned Selby. "He has the reputation of being blunt and aggressive and prone to make quick judgments."

"Thanks David, I will bear it in mind," responded Humphreys.

Contrary to what people in the bank expected, Dobby did not discuss with Humphreys or any of the Regional Managers about the problems which they had; this was a routine exercise which all incoming CEOs went through. What they did not realize was that the new CEO already had strong views regarding what his staff was worth. He also first intended to put in place a new structure which he thought would solve the multiple problems facing the bank on account of the new banks coming into India. "Get the structure right and the problems will melt away," he said to himself a dozen times. He also felt that there was too much on his plate as matters were now. But he did not intend to take anybody's views on this as he was confident of putting something together which he would mastermind. Consequently, he also did not bother to do a detailed survey of what other banks were doing in this area. In fact, within two months of his takeover, the following conversation took place with Humphreys.

"John," began Dobby, "I have given this matter of our structure a lot of thought. I will tell you what I have in mind and I want the new structure sent to Head Office for their approval soon. I am starting with the India Area Management Office. In fact, I have called Head Office and they are sending two of their Human Resource experts to evaluate my proposal before I commit it to paper."

Humphreys was completely taken aback. He was by nature a cautious person and knew that sudden changes in systems and structure could potentially backfire unless they were thoroughly thought through. Humphreys was an international officer with 12 years' experience behind him and had, prior to coming to India, worked in Hong Kong and Singapore. He had obtained a degree from a fairly good university in the U.K. before he joined the bank. He was also essentially a non-political person and did not like to be involved in the various intrigues that often happened in the bank. He was basically a people oriented person and was a reasonably good fit for the job of All India Manager – HR. His main weakness was in dealing with major problems. Being the kind of person he was, his

reaction to Dobby's views was understandable. Unfortunately, he was not a deep thinking person and so his first reaction was not (as it should have been), to press Dobby to give him the details of the proposed restructuring so he could think it through. He just left matters take their own course.

Humphreys however, did spend a couple of days agonizing over the situation. Though he had two years' experience in India, he was still a comparative novice in many ways. The problem was made more complicated by the fact that last evening he had received a call from Dobby who said, "Look, I don't want you to discuss the new structure for the Area

Management Office with any of the Branch Managers when you see it. I intend to put it before them as a *fait accompli* at the next Managers' Meeting." When Humphreys protested Dobby had brusquely told him to do what he was told and disconnected the line. He now felt

isolated and on the defensive as he instinctively knew that the type of structure proposed by Dobby would not go well with the Regional Branch Managers. He knew that all the managers had strong views and foresaw a potential tussle and this was not to his taste. His stint in India had shown him that Indians could not be pushed around at will and they had their own views which they could argue well and convincingly about matters, especially those affecting them they were. The Regional Managers were a tenacious lot and would not be pushed around, as Humphreys knew too well.

The New Structure in the Area Management Office

The two experts came from Head Office shortly afterwards and were in Bombay for a day. After the initial courtesies which Humphreys exchanged with them, he took them to Dobby. Dobby welcomed them and then surprisingly, told Humphreys. "John, I am sure you have enough on your plate. So why don't you carry on and I will tackle this matter with our friends from Head Office." Humphreys knew that Dobby did not want him to be a part of the meeting as he would have tried to intervene if anything inappropriate was suggested by Dobby. But he had no choice and left the office of the CEO. The visitors were scheduled to leave that night and Humphreys also did not know them from earlier days. If he had, he could have had a private chat with them later. As things were, he would have no idea on what was discussed during the day. All this only made him angry. He was also upset at the way Dobby was treating him and he therefore decided not to offer any comments on what the proposed structure would be like and let Dobby handle the consequences if anything went wrong. In fact, he knew they would.

The next day, Dobby called him into his office. "John, come in," said Dobby as Humphreys walked in carrying a cup of coffee. "I am sure you are keen to know the new structure. In fact the Head Office chaps were gaga over it. They asked me at the end why no one had thought of it before."

"That's good," said Humphreys noncommittally. And added, "perhaps none of the earlier CEOs had your vision and depth of knowledge."

Dobby did not understand the sarcasm and thought it was a compliment. "Thank you, John. I was thinking the same thing myself."

You conceited idiot, Humphreys thought to himself. Get on with it.

"As you well know," said Dobby leaning back in his chair and putting one foot on the desk in front of him, "My job has too much operational matters for me to deal with and it prevents me from looking at long term strategy. I need thinking space to do this job properly. A CEO cannot be burdened with the muck and truck of banking if he is to be a proper CEO. You agree?"

“Of course,” said Humphreys with a dead pan face.

“So what I have decided to do is to bring create a new position in this office. I will appoint a Deputy CEO to handle the operational and major union related issues and free myself for meaningful work.”

“Anything else, Terry?” asked Humphries.

“Oh yes. The Regional Managers will report to the Deputy CEO from now on as he will be responsible for the branches. To be honest, I have had enough of handling their complaints, especially of non-important matters.” Dobby elaborated on the subject a bit more and asked Humphries if he had anything to say.

“No, nothing,” said Humphries and prepared to leave the office.

“Remember not to tell anyone about this till I write to the Regional Managers before my next meeting with them,” Dobby called after him. “And you will continue to report to me.”

Shortly thereafter Dobby wrote to all the Regional Managers telling them about new position he had created, and which had the approval of the Head Office. The Group Staff Controller when he heard about the proposed change in the structure of the India Area Management Office was not in favour of what Dobby proposed. However, this was a matter outside his province and so he did not say anything. But he did tell the Chairman about his reservations. The Chairman also did not do anything as it would have meant a direct interference with something which was far below him in the hierarchy of the bank. This lack of interference was in the best traditions of the bank, and it was traditionally a matter of pride for the bank that officers, however senior, did not meddle in other people’s matters. They let the reporting levels dictate their actions.

In due course and shortly after writing to the Regional Managers, Dobby convened a meeting in which the four Regional managers, Humphries, and the CEO’s secretary Yolande Ferdis were present. This was held in the CEO’s office. Humphries sensed that the mood of the managers was sullen as soon as they waked in. Dobby began the proceedings by welcoming them and then got onto the main business.

“Well, I am sure you have received my letter about the changes coming to this office. As no one called me, I am taking that you are all in agreement. I knew I could rely on your understanding and good sense. ”

This served as the opening everyone had been waiting for. For the next hour and a half, the raised voices of the managers filled the office. Dobby’s secretary initially tried to keep a record of what was being said for the minutes of the meeting which she would have to prepare, but soon gave it up. “You can’t be serious”, “This is ridiculous”, “What made you think of such a thing?” were the politer comments made by those present. Dobby tried to put in a word but he too gave it up (like his secretary). Humphries secretly enjoyed listening to the managers but wisely did not say anything. The angry and noisy comments went on and after an hour and half had passed, the managers all stood up as if a signal had passed between them and walked out of the room.

Dobby looked at Humphries. He was furious. “I am not going to let these jumped up clerks dictate what I am going to do ” he said. “John, tell Head Office we had a good meeting and

that all the managers are pleased with the new structure. Tell them that it took a bit of convincing but that in the end they were all in agreement. And tell them to send the new Deputy CEO this week itself. I think they are looking at Robin Rowe for the job.”

“But Terry,” began Humphries. He was very rudely interrupted. “But me no goddamn butts. Just do what you are told.” Any lingering loyalty to his boss on Humphries’s part vanished completely at these words.

Humphries went out of the room and that for the time being, was that.

The Consequences

Rowe joined in a week and took up the new job. No more was heard from the four managers and this pleased the CEO. He called Humphries and told him, “You have to be tough with these people or else they will ride all over you. I know the mentality of Indians. They are all bluster at the beginning when they don’t like something but when they know there is nothing to be gained by opposing something they don’t like they will come and lick your boots. How do you think we ruled them for so long? We knew the secret of wielding power. We knew how to get them to bend to our wills. The same thing applies here. In my view we should never have given back India to the Indians. I wish I were living during those times.”

Humphries again did not say anything but smiled grimly to himself. Rowe was not told of the views the Regional Managers held and so was cocooned in ignorance as he settled in his job. He too was a brash person of no intelligence and lesser knowledge of banking than Dobby. They form a nice pair, thought Humphries. ‘Made for each other’ he thought recollecting an advertisement he had recently seen.

The three of them were sitting in Dobby’s office a couple of weeks after the eventful meeting. Dobby was holding forth to Rowe on how Indians were to be treated. No mention was made of the views of the Regional Managers.

“Keep in mind, Robin,” said Dobby. “Don’t let any of these natives push you around. You have to show them who is the boss and as the four Regional Managers report to you, you are their undisputed master. Treat them as slaves. They will not do anything to jeopardise their well-paid jobs. It is too important for them. Robin looked happy and was about to say something when there was a knock on the door. “Come in” Dobby shouted and Yolande walked in with a few papers. Humphries thought there was a smile on her face which she quickly concealed.

“Yes, what is it, Yolande?” asked Dobby. “We are a bit busy now.”

“I know, but I thought you will like to see these telex messages from the four Regional Managers. When two came in in the space of ten minutes, I waited for the other two,” she said enigmatically and handed the four slips of paper to Dobby.

“Must be to tell you they are all looking forward to working with you, Robin,” said Dobby. “I will read them out to you. This is typical of Indians and they will want to be on your good side right from the beginning. Infantile toadyism is what I call it. No sophistication in these people.”

Dobby glanced at the first message and his expression altered. He frantically looked at the other three messages. He seemed to slump in his chair. He did not say anything and the others got a bit worried. He then spoke.

“The four managers have submitted their resignations with immediate effect. They do not wish to serve the one months’ notice period required and are willing to forsake the month’s salary in lieu. These messages are addressed to me with a copy to my boss and the Group Staff Controller. They say they will not report to the Deputy CEO under any circumstances and they will not change their stance with regard to their resignations. For Pete’s sake, what are we to do now?”

Rowe looked stunned as he had been under the impression that matters concerning the restructuring were alright. This was the first time he knew there were opposing views. And that too, violently opposing views.

Humphries then spoke and his voice carried all the anger and resentment he felt towards the CEO.

“I think Terry, what you mean is what are *you going* to do now. You are the primary recipient of the messages. You also have to figure out what you will tell your boss and the Group Staff Controller. After all, you gave them the impression that the restructuring was accepted by the Regional Managers.”

He looked at both the CEO and the Deputy CEO. ‘I will be in my office if you need me,’ he said and walked out.
