

**ORGANIZATIONAL EVOLUTION AS ORGANIZATION DEVELOPMENT IN  
THE LONG RUN**

**LESSONS FROM THE SBI ANNALS**

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## Introduction

The OD process is the focus of attention in this conference.

As a practitioner, I am often aware of larger forces and non-programmatic influences operating on Organizations and pushing them to change. The major choices in a change programme are often determined by the (sometimes imperfect ) understanding of this larger context.. Organizations seem to attempt variations, and naturally select those variations which help them survive or flourish. An OD practitioner who is alive to such variations and selections could perhaps offer more to client systems.

There is now a growing interest in business history because of the possibilities it provides of understanding such evolutionary forces. The important part of the evolutionary practice is to be able to recognize the historical moment or the evolutionary juncture. Outside consultants can help by way of gathering historical material, constructing organizational histories and guiding the process.

In today's world, we are caught in the swirls and eddies of global forces. We live in a complex economic system, which is integrated and interlinked. Organizations and institutions are as influential as nation-states or kingdoms of yester year. In this context, the historical analysis of firms and organizations becomes the right 'meso' level of study for drawing practical inferences.

In this paper I delve through the Annals of State Bank of India to see what such an approach offers us in terms of understanding organizational change facilitation. This is an organization, which is turning 200 this year. It has also been one of the early users of OD processes in the country, accepting and integrating the values implicit in OD work.

## SBI history within the economic context.

The history of SBI is interesting for those operating in the Indian economy for at least three good reasons.

- SBI has gone through a variety of transformations
- SBI has played a central role in the Indian economy in all its avatars.
- SBI has time and again demonstrated its ability to adapt to changing needs in the economic system.

The second centenary of the Institution's life is perhaps an appropriate moment to reflect on its survival strategies

**Table I: A brief overview of SBI's avatars**

<b>Changes within the bank</b>	<b>Year</b>	<b>Significance for the economy</b>
Formation of the bank of Bengal	1806	Emergence of a European style financial system
Formation of presidency banks in Bombay and Madras	1840-1843	It's spread to other regions, paralleling the spread of the colonial rule.
Collapse of the bank of Bombay and its reconstitution	1860-1864	Economic aftershocks of the events of 1857
Integration -The Presidency Banks Act	1876	Integration of markets and economic systems across India
Amalgamation and the Formation of the imperial bank	1920	A machine to fulfill the imperial government's needs
Completely commercial banking, with the Creation of Reserve bank of India	1935	Separation of central banking and commercial banking
Birth of State bank of India	1955	Banking in a newly independent economy
Reorganization	1972	Market focus
Restructuring	1994	Deepening of financial markets

#### SBI's resilience

The bank has time and again demonstrated its ability to adapt to emerging situations. It has in turn shaped the behavior of the entire financial system. It is interesting to identify the strategies the organization has used to reinvent itself through the changing contexts. The inherent robustness of its constitution and business processes have stood it in good stead over the years. Are there any lessons from this saga for other institutions as they mature and evolve? How do we cherish such strength in our organizations and build on them further?

#### Understanding moments of profound change.

A social system can be understood in terms of its major institutions such as the State, the market, community or civil society and their interrelationships. Historians recognize moments of profound change when the balance of power or influence shifts between these institutions.

For example in a monarchy the state is identified with the monarch and the civil society does not aspire to choose its monarch. – If there is a change over to democracy this balance shifts and the civil society definitely has a say in the way the state functions. The banking or the financial system is usually the first to feel the impact of profound change. It is therefore no surprise that time and again, SBI (or its progenitors) made significant shifts to adapt to emerging realities.

A look at four key turning points – 1876, 1920, 1955, 1995 - in the Bank's history in terms of its adaptation mechanisms is taken up in the following paragraphs.

**Table II. Shifting relationships in India - the state and the economy**

Year	Type of State	Markets and the state	In today's parlance
1806	Early Colonial	State controlled by private interests of traders	Crony capitalism
1840-1843	East India company regime	EIC rule- state controlled by interests of emerging industry in England.	MNC domination
<b>1860-1864</b>	<b>Early imperial</b>	<b>Integration and control of state authority</b>	<b>Exploitation or unequal exchange</b>
1876	Imperial	Emerging national economic system	
1920	Imperial	Well integrated national economic system	
<b>1935</b>	<b>Imperial</b>	<b>Well integrated national economic system</b>	<b>Imperialist hegemony</b>
1955	Nationalist	State as active initiator in the economy	License Raj
<b>1972</b>	<b>Socialist</b>	<b>State as moral authority and regulator of the economy</b>	<b>Social control/ public sector growth</b>
<b>1994-5</b>	<b>Globalising</b>	<b>Market forces determine economic action -State as regulator</b>	<b>Liberalization / privatization</b>

The key elements used for this analysis are

- Ownership and governance
- Business processes
- Structures and systems

Some pointers to the secrets behind the resilience of the organization emerge when we look for common patterns through the twists and turns.

Uniform Regulation of the Presidency Banks in 1876

Pax Victoriana that set in after 1860 helped the colonial state to consolidate its colony into a commercial empire.

**1876- The Sun Rises Over British India**

- Her Majesty's Government wanted a clear distance from commercial interests
- A pan-Indian economy was emerging
- Physical distances and information gaps were being bridged with railways and telegraphs

The control was clearly in the hands of the capitalist interests in Britain. Political security allowed the British Government to focus on the economic sphere. Banking was the first bit of infrastructure they sought to create, to strengthen the economic power. The three banks set up in the three Presidencies were brought under the preview of one uniform legislation, The Presidency Banks Act (1876).

Under this regulatory regime, the Government stepped back from its position as Owner and Manager in Madras and Calcutta. The state could thus distance itself from the market place. Government directors on the boards were no longer pulled into partisan actions favoring one commercial enterprise against another. They began to take on the issues related to the efficiency and safety of operations as the Banks expanded their reach.

The exigencies of the expanding commercial empire pushed the Presidency Banks into the Branch expansion mode. The Bank innovated in developing a well-integrated branch network to simultaneously manage the interests of trade and industry as well as the monetary requirement of the colonial government. The major financial products of today—the cash credit, the gold loan, the “produce” loan and current account were all popularized in this period. The bank rarely accepted term deposits because it was usually a cash-rich enterprise, “flowing” with the Government’s tax collections. These procedures and processes have become the basis for the banking system in India over the years.

The Presidency banks also developed their capacities to manage a network scattered across difficult geographical terrains. Inter-branch accounting, monitoring of branch operations / audit/ inspection and delegation systems were all invented in this phase. A report by R. Taylor (a government official) on the Branches of the Bank of Madras circa 1874 is a classic in its genre— and reveals how the treasury work was the key activity in most of the branches. Natives were employed mainly in the cash department (as Khazhanjees and Shroffs). The logistics of how to count store, transport, and otherwise take care of cash to meet the needs of the Government were worked out to the last detail. A study of the evolution of these systems continues to be topical and relevant even for today’s branch banking and ATM regimes.

Gradually, this led to the unification of monetary systems across India. Regional character was preserved within the overall framework that was clearly emerging. The European commercial interests prospered, under government protection and banking support.

#### The Imperial Bank, 1920

The British Empire had succeeded in creating an integrated economic system across the sub-continent by the turn of the century. The industrial sector and commercial agriculture pulled in the distant corners of the country into an interlinked production system. The banking system was a major piece of the infrastructure supporting this system, along with the railways, the telegraphs and the ‘steel frame’ of the bureaucracy. It was no longer feasible to have three distinct banks. The Imperial Bank was created by a separate Act in 1920 to meet this situation. It emerged as the Bank which served the elites, usually closely allied with the British industrial interests.

### **1920-A Victorious Empire – with a budget crisis.**

Public confidence in the monetary system was already under pressure within the Indian subcontinent.

- The money markets were no longer regional and insulated Many bank collapses sent shock waves through the economy
- The Indian Government's reserves had already been drawn down to fund World War I

The creation of RBI in 1935 resulted in the separation of Central Banking and Monetary Management and the crystallization of the commercial character of IBI.

IBI set the standards for reliable operations-- The Book of Instructions was followed meticulously. This internal manual has in fact set the standards (a "benchmark" to use today's language) for the entire banking system in India. Servicing international trade (an area open only to the Exchange Banks before this) was the new challenge that IBI wanted to take on. The London Office was very useful, particularly for the British officers who wanted to be in England.

The Bank Agent was a respected figure, usually a trusted friend of the District Collector, the Police Superintendent and the leading industrialists, traders and landowners. The bank was a pillar of the Empire, working closely with the administration. Yet it could maintain its own identity and play an independent role in the economy.

The freedom movement and the Indian Independence in 1947 imposed a major pressure on this Institution so steeped in Imperial Era. It had to change radically and its "imperial" spots could not be changed so easily. The birth of SBI was a result.

### Formation of SBI, 1955

Newly independent India was riding a wave of optimism. The national agenda was to create the industrial infrastructure that would make us technologically independent. The banking system at the time of independence was dominated by the IBI. Private banks were usually adjuncts to the private Indian industrial houses (e.g. the UCO bank was Birla Bank. The only development financial institution was the Tata Industrial Development Bank, which later became IDBI)

Clearly a new Institution was needed to become the backbone of the Industrial development agenda. The SBI Act was passed in 1955 after due discussion. The Indian managers of IBI now had their opportunity to take on the reins and meet the national agenda

The first challenge was to extend the branch network. The Branch Department was most significant within SBI in its early days. Only the seasoned Agents were sent to open new branches. Product innovation followed quickly.

SBI had to design ways to assess and provide financial assistance to the Small Scale Industries, the Agriculturists and later the various categories of the poor in rural India. It identified market segments, tailor made its internal structures, streamlined the recruitment and attracted fresh young talent to the fold. Even after the nationalization of the other banks, SBI has retained its edge over the others in various ways.

The bank has been able to restructure its operations and reposition itself to meet the emerging needs in the economy.

Over the years, the work culture changed dramatically, a strike in the late 60's being a watershed. Rapid branch expansion in the mid 70's necessitated massive recruitment and investment in training and staff development. The crisis of the 1990's threw up further challenges. SBI re-gear'd itself to meet the new norms of capital adequacy, interest recognition and even managed to down size its staff. In the churning of the financial markets in the mid-nineties, Ex-State Bankers moved into key slots in almost all the new banks.

Along the way it has shed its image as a Bank for the elites and accepted its not so shiny ranking among its peers, based on the success parameters of today's new age banks. SBI continues to dominate the market place, playing different tunes in different segments, though with less of a dash than it did in the 1960s or 70s.

### The Leitmotif Through The Centuries

There are a few themes that keep recurring through the twists and turns of the SBI saga. The Presidency Bank- IBI- SBI has had to find different answers to these questions in keeping with the times.

- The relationship with the government has been one key issue- its role as the major channel for implementing the Government's financial strategies has continued through its history.
- It has had to define its relationship with industry and trade, as the equations within the economy changed. It has been successively the bank for British private traders, British manufactures, Indian elites, Indian SMEs, agriculturists, marginal farmers and the emerging Indian middle class!
- It has moved from complete Government ownership to partial Government ownership to some private ownership to RBI ownership to handling a significant level of private holdings. It is still examining the most appropriate level of private investment to meet the capital adequacy norms.

The secret of its resilience through its two hundred year history as revealed by this "version" of its history can be summed up in terms of the following abilities it has developed and sustained.

- An ability to judge and maintain the right distance from government
- A sensitivity to the key demands arising from the environment
- A capacity to innovate business processes products etc
- A strategy to attract and retain talented people

These would appear to be " eternal" challenges which the management of the institution to deal with.

### Reflecting on OD practice

These issues seem to have guided OD initiatives within SBI when we now review them. For example, market segmentation introduced by SBI as part of its reorganization in 1974 clearly addressed the needs emerging in the market place. Similarly the focuses networks introduced in mid nineties were essential to pitch it into the fast changing scenario in the Indian economy.

An OD practitioner alive to an organisation's evolutionary path and its key existential dilemmas in moments of transition is therefore likely to tune in better with the clients needs and aspirations.

Post script

SBI's history –a navigational guide.

The SBI website ([www.statebankofindia.com](http://www.statebankofindia.com)) gives a comprehensive narrative of its evolution (see *Evolution of SBI* under “about us”). Dr A K Bagchi's recent articles (the Hindu on 14/07/2005 and 1/08/2005 available on the online edition) are also interesting.

Those who would like to delve deeper should plunge into the five volumes of History. Unlike other business histories, which set out the contributions of key personalities SBI's history is both voluminous and impersonal. Even the most ardent history buffs would have to muster some determination to wade through the volumes. I offer a list of my favorite selection for those who are willing to start off.

- The introduction to Volume I, Part I
- The epilogue of volume I, Part II
- Chapter I of Monograph on Money and Banking
- Chapter 2, 5 of Volume II
- Chapter 19 of Volume II
- Chapter 9 and Epilogue of Volume III

The reader can then make further selections depending on taste and inclination.

A visit to the State Bank Archives in Calcutta will also prove rewarding.