

PNB HOUSING FINANCE LIMITED: TOWARD SUCCESSFUL TRANSFORMATION¹

Priyanka Vallabh, Ruchira Das, Suresh Jayaseelan, and Swaraj Dhar wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Version: 2020-04-30

April 8, 2016, was a hot day in New Delhi, and an atmosphere of anxiety swathed the boardroom at the headquarters of Punjab National Bank Housing Finance Limited (PNB). The board of directors, comprising the chairperson, managing director, and other board members, was analyzing the previous year's results and deliberating on the company's growth plan. Although PNB's recent transformation process had proven successful, the board was skeptical about the company's next move—launching an initial public offering (IPO). It was now a testing time for the initial transformation process; the big question was whether the company was sufficiently mature to handle the next critical milestone in its journey. Would it succeed in creating a favourable public image for PNB? And would the company emerge from its IPO as one of India's leading housing finance institutions? What should the board recommend?

INDUSTRY BACKGROUND

The creation of India's National Housing Bank (NHB) in July 1988 under the *National Housing Bank Act, 1987*, marked the emergence of India's housing finance industry, in which a long-term agreement between NHB and any housing finance company determined the risk to lenders and borrowers. Prior to the 1990s, the greatest challenge was the unavailability of long-term finance to an individual household. At that time, housing was considered the economy's least productive sector.

After 1990, three distinct groups of housing finance companies emerged: specialized housing finance companies (HFCs), HFCs created as subsidiaries of commercial banks, and HFCs set up by insurance companies. Nevertheless, banks continued to have an edge over other HFCs and held 63 per cent of the finance market share in fiscal year (FY) 2015 (see Exhibit 1), by virtue of the banks' more extensive networks, broader customer base, and relationships. Given the fierce competition with nationalized and private banks, the challenges for HFCs were to develop a trust relationship with customers, build a brand image, introduce innovative products, and extend their reach through the use of technology and a customer-friendly approach. They also faced the challenge of fundraising to extend their business.

¹ This case was awarded an honourable mention in the ISB-Ivey Global Case Competition 2017. The prize was sponsored by ISB.

India's housing finance sector was a significant contributor to the country's gross domestic product (GDP). India's small mortgage-to-GDP ratio meant this sector had enormous growth potential.² Nevertheless, HFCs' greatest challenge was the unavailability of long-term funds, especially because the sub-prime crisis of 2008 had reduced capital flow in the Indian market.

ABOUT PNB

Incorporated in 1988, PNB was a subsidiary of the large public sector bank Punjab National Bank, PNB had entered into a strategic partnership with Destimoney Enterprises Private Ltd. in 2009, selling a 49 per cent stake to Destimoney Enterprises.³ In February 2015, Destimoney Enterprises sold its whole shares to Quality Investment Holdings, which was owned by Carlyle Group, a global investment firm. The remaining 51 per cent of shares were held by the parent company (Punjab National Bank). The company offered housing loans and fixed deposits to customers. In the housing segment, the company offered loans for the construction, purchase, repair, and expansion of houses for individuals and corporate entities. It also provided loans for commercial space, loans against property, and loans for the purchase of residential flats.

Through its 47 branches, PNB had a presence in 38 cities and 17 states in India. It was one of the fastest-growing HFCs, with loan portfolio growth of 6.95 times the industry growth (from ₹39 billion to ₹271 billion⁴ in FY 2016; see Exhibit 2). The 47 branches acted as primary points of sale and assisted in the origination, collection, sourcing, deposit, and enhancement of customer service, while the processing hubs and zonal offices provided support functions that included loan processing, credit appraisal, and monitoring. To attain this position, PNB underwent a journey of transformation to improve service quality, strengthen relationships, and enhance accessibility for prospective customers.

THE NEED FOR CHANGE

Since its inception in 1988, PNB had experienced stagnant business growth, with a market share of less than 0.4 per cent, which placed it in the category of "others." Back then, the company had been virtually unknown in the industry; it had a small loan portfolio, but its peers were doing well and growing rapidly in the wake of India's 1991 liberalization measures, which had impacted positively on the country's financial services sector. Another reason for PNB's small volumes was that ticket size and the targeted customer segment undermined the quality of loans. As a result, PNB's non-performing assets (NPAs) were almost 1.5 times the industry average, limiting growth for more than two decades.

As a fully owned subsidiary of a large nationalized bank, PNB had employees on deputation from Punjab National Bank and a management cadre recruited through an all-India examination. There was no adequate business operating model, reporting structure, or role definition. In relation to this lack of specialized functions and misaligned reporting relationships, one of the company's senior executives recalled, "We lacked a proper reporting structure. I remember our information technology team reporting to HR [human resources], software team reporting to finance, legal reporting to marketing. It was totally unorganized."

Additionally, the absence of an underwriting policy, standard operating procedures (SOPs), and a proper performance management system meant that employees were less oriented toward performance and

² PNB Housing Finance Limited, *Investor Presentation*, May 1, 2017, accessed June 6, 2017, www.pnbhousing.com/wp-content/uploads/2017/05/PNB-Housing-Finance-Investor-Presentation_May-2017.pdf.

³ Team VCC, "Carlyle Buying Part of Destimoney Including 49% Stake in PNB Housing Finance," VC Circle, February 9, 2015, accessed June 6, 2017, www.vccircle.com/carlyle-buying-part-destimoney-including-49-stake-pnb-housing-finance.

⁴ ₹ = INR = Indian rupee; all currency amounts are in ₹ unless otherwise specified; ₹1 = US\$0.0149 on average in 2016.

business excellence. The negative atmosphere created a vicious circle, making the workplace gloomy and leaving employees dispirited. Employees and other stakeholders knew that the existing business model had failed badly, and talk circulated about rolling the subsidiary back into its parent company.

It was testing time for PNB. As one executive of long standing recalled, “I was in a state of stress at that time. I had a fear of losing my job. It was a complete mental trauma.”

With the backing of its parent company, PNB explored the possibility of a public–private partnership with Destimoney Enterprises, which was fully owned by New Silk Route,⁵ a private equity firm. By investing ₹1,373.2 million, New Silk Route took a 49 per cent stake in the company, and this partnership opened new directions for PNB.

The partnership understood the existing organizational challenges and employee aspirations, and strongly felt a need for a business process transformation and re-engineering program. A globally renowned consultant was enlisted as a consulting partner to facilitate the transformation process. A series of discussions led to Project Kshitiy, which aimed to transform PNB into a vibrant and forward-looking new age enterprise, focused on customer requirements, robust and efficient processes, and skilled and motivated human capital. The project sought to establish PNB as a “solid solution provider” in the housing finance sector and to increase PNB’s brand value by positioning the company as an aggressive, profit-generating corporate enterprise.

The Role of Leadership

To drive this project, the organization needed a strong leader. Through a global recruitment process, Sanjaya Gupta was selected as PNB’s new managing director (MD). Gupta took six months to observe the existing culture and to identify the major roadblocks inhibiting the company’s progress. His first task was to decide on a way forward toward organizational transformation. From June 2010 to June 2011, 13 board meetings were held to decide the strategy for the next five years under Project Kshitiy. Along with an impact analysis, Gupta introduced many plans for change, all of which were approved by the board by June 2011.

Challenges Along the Way

PNB faced challenges not only in building talent but also in buying talent. Because the company had a poor brand image, PNB was unable to attract top talent from within the industry to build in-house functional capabilities. The employees’ general trepidation about the new management was further intensified because rumours and other unofficial information circulated, which created an ambiguous environment. PNB was trying hard to introduce a performance-driven culture.

While the company struggled to establish its credibility among existing employees and new hires, it also needed to manage the existing business and culture change. Many of its processes were old and unresponsive to change. Employees lacked functional alignment, accountability, a performance management system, and a promotion policy. Every branch had its own way of doing things, with no SOPs, no technology use, no underwriting policy, and no human resources policy.

Employees exhibited little enthusiasm to perform better or achieve targets. The journey toward growth demanded a guided approach to talent management to identify the right talent for the right position, and to

⁵ PNB Housing Finance Limited, *27th Annual Report 2014–15: Growing Higher by Growing Deeper*, April 1, 2015, accessed June 6, 2017, www.pnbhousing.com/wp-content/uploads/2017/02/PNB-Housing-Finance-Annual-Report-2014-15.pdf.

develop a strong performance management plan, a leadership development plan, and a succession plan. Additionally, in an era guided by digital innovations, the company was burdened with poor technology, which limited the productivity of both employees and the branches. The company's NPAs were higher than the industry average, and observers perceived PNB as a laid-back organization with minimal commitment to customer service and poor office infrastructure. The online platform did not provide direct customer interface, and it was a poor system for customer feedback.

TRANSFORMATION PROCESS: THE GAME-CHANGING PLAN

The first step in the metamorphosis was introducing a business re-engineering process through a strong transformation plan—Project Kshitiy. This plan included revamping business processes by creating and implementing a strong and scalable target operating model (TOM), organizational restructuring, brand repositioning, and a new service delivery model, along with upgraded information technology, an existing cadre of capability building, and policy review.

It then became important to make employees aware of Project Kshitiy and the forthcoming transformation. A team of 32 officers was appointed to explain Project Kshitiy to everyone in the organization. All employees were sent to an assessment centre for competency mapping on various parameters, including the *aspiration* parameter, a measure of what the employees expected from the organization.

Assessed on a 0–5 scale, a majority of employees scored less than 2 on most parameters. The one exception was the aspiration parameter, which revealed that everyone wanted a better working environment, a higher salary, improved infrastructure, and a growing organization. These results provided a ray of hope for senior management, and they sold employees a dream in the form of a five-year business plan—Project Kshitiy. The MD's appeal to employees was, "Consider PNB as your family, your company, your initiatives."

However, the major challenge was addressing employee issues. One challenge was the integration of long-time employees and new hires in a new culture. A few employees wanted no change, and they created roadblocks. These employees were identified, and the most stubborn five were appointed as "Change Champions" and asked to lead the change process. It was also decided that if the company's leadership showed resistance, the top leader needed to be removed, and the next in line would be given the opportunity to lead.

The company provided functional training for role alignment, adapting to new processes and policies, and skill enhancement. Sales personnel were appointed as branch heads because of their better understanding of local markets. Cross-functional and cross-location collaborations were established by forming a committee of 15 people that included functional and zonal heads. A hub-and-spoke model strengthened the organization's internal networking, and in doing so, reinforced the entire change process.

Operationalizing the Target Operating Model: Hub and Spoke

The target operating model was launched with a focus on improving productivity, efficiency, and quality by strengthening the organization's people, processes, and technology using a hub-and-spoke model. Each spoke or branch acted as the primary point of sale, undertaking loan origination, collection, deposit sourcing, and customer service. The hubs provided support functions such as loan processing, credit appraisal, and monitoring.

It was challenging for PNB to bring together all of its branches and zonal offices under centralized control. The centralized operating model aimed for optimum utilization of resources, SOPs, and a scalable and

flexible delivery model. This technology-driven, scalable operating model enabled PNB to drive profitability with lower incremental costs. Empowered to take decisions, the processing hubs were designed to support additional branches to penetrate the major territories where new branches would open or to selectively expand into territories with high potential growth for loan products (see Exhibits 3A and 3B). Operations were re-engineered based on four principles: team formalization (i.e., the set-up of operational functions across all locations), process orientation (i.e., implementing SOPs across all branches), centralization (i.e., centralized back-end operations), and the implementation of the target operating model.

The company created 16 processing hubs to support 47 branches. The hubs consisted of subject matter experts, who were empowered to take decisions, providing operational support to allied branches and cities. The hub team of subject matter experts comprised underwriters, fraud control, and technical, legal, and collection experts who also focused on risk assessment and management. The risk analysis team included four major groups: retail finance, wholesale finance, collections, and advanced processing facility (APF). The retail finance group focused on standardized procedures, documents, and well-established policies. The wholesale finance group focused on centralized credit and operations, financial appraisals analysis, and portfolio reviews. The collections group focused on strict adherence to legal frameworks, collection trail analysis, and strengthening collection policy and strategy. Finally, the APF group focused on project monitoring and project grading.

The success of the model was dependent on how frequently and efficiently these hubs could solve the branches' problems. Enterprise system solutions lent the model a technological edge, bringing all stakeholders together on a single user-friendly platform, which facilitated the real-time availability of digitized documents, reducing turnaround time and dependence on physical files. Centralized integrated technology and standardized back-end processes positioned PNB to scale up and grow its network and to expand in emerging territories where urbanization, income, and demand for housing were growing.

Reduced Sourcing Costs

Low-cost funding increased the demand for housing in emerging cities with a population of more than one million (cities other than Chennai, Kolkata, Mumbai, New Delhi, etc.). The lower cost of borrowings from diversified sources and a high credit rating enabled PNB to price its loan products competitively. Because deposits had been a stable source of funds for PNB, the strategy was to raise deposits by introducing new products, improving the quality and efficiency of customer services, expanding the distribution network, and adding more deposit brokers.

Strengthening the Loan Portfolio and Credit Quality to Reduce the Risk of Default

PNB framed a multi-pronged strategy comprising the right customers, optimal underwriting using subject matter experts, market-to-market policies and programs, empowerment of employees to make timely decisions, and continuous training and feedback. Advanced information technology and robust processes supported these strategic elements.

The company also created a special cadre to steer the process of controlling the NPAs. This experienced team maintained stringent qualitative checks and played a pivotal role in restricting NPAs to the lowest level among leading HFCs in the sector. On March 31, 2016, PNB reported NPAs of 0.60 per cent, which was the lowest among leading HFCs in India (see Exhibit 4).

Changing the Physical Infrastructure

All branches were given a welcoming look and feel to ensure a familiar and consistent customer experience. The company revamped its offices for friendliness and comfort, while highlighting the values of the brand. PNB undertook several infrastructural changes involving the relocation or refurbishment of existing offices, both to enhance the work atmosphere for employees and to provide a pleasant and safe experience for customers. From a minuscule 48,000 square feet of office space in FY 2012, the company expanded to 190,245 square feet by the end of FY 2016. After revamping, the branch infrastructure was designed to ensure that all offices were interconnected, enhancing scalability, security, and the legitimacy of data. The inter-networking and enhancement of existing distributed loan management applications supported the hub-and-spoke model.

Brand Repositioning

As part of the transformation journey, the company decided to convey the message that it was new age, contemporary, customer-centric, and a trustworthy partner. Using media that included print, radio, television, and digital and direct marketing, the company's marketing plan and advertising campaigns reached out to its target customers in a simple and accessible manner through a mobile-friendly website, e-mails, SMS (short message service, also known as texting), toll-free contacts, social media marketing, and online paid advertisements. The goal was to reach prospective customers seeking information on home loans. These promotional activities also included participation in trade shows and exhibitions. These new marketing collaterals and campaigns across different media assertively promoted the company's core positioning (*Ghar Ki Baat*, which translated as "Let us talk about Home") while reinforcing the promise of customer-centricity.

Unleashing the Power of Information Technology

The organization introduced robust contemporary information technology (IT) involving a single-platform, real-time, online system based on the Statistical Analysis System model. Hosted on a robust data centre and disaster recovery centre infrastructure, this state-of-the-art system was designed for ease of use and better customer service delivery. The data centre and disaster recover architecture was informed by four fundamental principles: data security, data integrity, data availability, and data scalability.

PNB enhanced its existing levels of customer service by implementing a new enterprise resource planning system under Project Sapphire, emphasizing process implementation and business initiative. Additionally, the installation of an enterprise system solution and its seamless integration across all of the organization's activities made the overall business framework more secure, scalable, and supportive. Eliminating manual efforts improved operational efficiencies across all functions and in doing so, enhanced customer service standards.

Managing the Culture: Establishing Effective Communication Channels

PNB management realized the need for strong communication channels to bring about sustainable and effective organizational cultural change. Setting up the right workforce pool was a major challenge; it required a change of mindset among older employees and enthusiasm among newcomers to cope with the turmoil of the change process, which was necessary for employee buy-in and seamless transformation. Key influencers who initially resisted the transformation efforts were recruited as Change Champions, and they regularly transferred inputs from the senior management team as drivers of the vision for change and the need for business transformation.

In different branches across the country, top management conducted town hall meetings, where senior executives met employees at all levels to hear their opinions about the transformation and the challenges presented by that process. During these meetings, senior executives sought to communicate the company's organizational values and the need for change to achieve those values.

PNB introduced a Skype-based communication channel called Sampark, which the human resources department used to connect with employees, using a "one branch per week" approach to communicate change initiatives and to share concerns. An online portal called MD's Post was launched to enable whistle-blowers (i.e., those who drew attention to questionable activities) to write directly to the MD about their queries and concerns.

To institutionalize the new culture, PNB management conducted workshops on the company's mission, vision, and value, and required all employees across all grades to participate. The primary focus of these workshops was to educate employees about how PNB was building a "value-based organization."⁶

Implementing Employee-Oriented Performance-Driven Practices

In seeking to develop fair employment practices, PNB made radical changes to existing policies, and introduced a formal performance management system to promote a performance-driven culture. This new system helped to provide transparency and to empower and motivate employees by sharing the same feedback from bottom to top. Surveys (e.g., Great Place to Work) not only highlighted areas of improvement but also enhanced employee trust and the credibility of new management practices. The company also introduced a well-balanced compensation structure that included fixed and variable pay in an attempt to promote a culture of performance and excellence; regulated the pay scales to maintain internal parity across the grades; and launched reward and recognition programs to motivate desired behavioural changes.

PNB management used development centres to identify employees' core competencies, skills, and attitudes, and then leveraged employees' aspirations, which appeared positive, to pursue optimal role fit. Upskilling and cross-functional training programs helped to foster a culture of learning and to address technical and functional gaps, leading to enhanced business results. A series of leadership talks by change management experts and spiritual leaders boosted employee morale, and periodic team building exercises promoted group cohesiveness. The company rewarded good behaviours and asked top performers to share their learning and achievement stories and to motivate others. A united team approach developed throughout the organization; as a senior HR executive noted, "We conduct a single morning prayer every morning across all our branches to reflect our unity as one organization."

Enhancing Customer Value by Leveraging Social Media and Technology Platforms

During the transformation process, the introduction of online financial management facilities significantly increased the customer base, and many existing customers preferred to engage directly with PNB through this online interface. To meet the needs of new customers, PNB implemented email campaigns and established an online network of loan aggregators, which generated strong enquiry volume and brand recall. PNB's many social media marketing initiatives included online paid advertisements to reach prospective customers who were searching for information on home loans or were considering taking a home loan. Initiatives were also implemented to enhance access across mobile devices, using mobile-optimized online

⁶ Sujaya Banerjee, *Switch: How 12 Indian Companies Managed Change Successfully* (New Delhi: Bloomsbury Publishing India, 2014).

platforms. PNB also strengthened its technology platform to target potential customers using social media. In addition to the existing customer portal for easy access to loan information, a dedicated customer service centre helped to improve post-sales service and regularly updated PNB systems to streamline credit approval, administration, and monitoring processes, meeting customer requirements on a real-time basis.

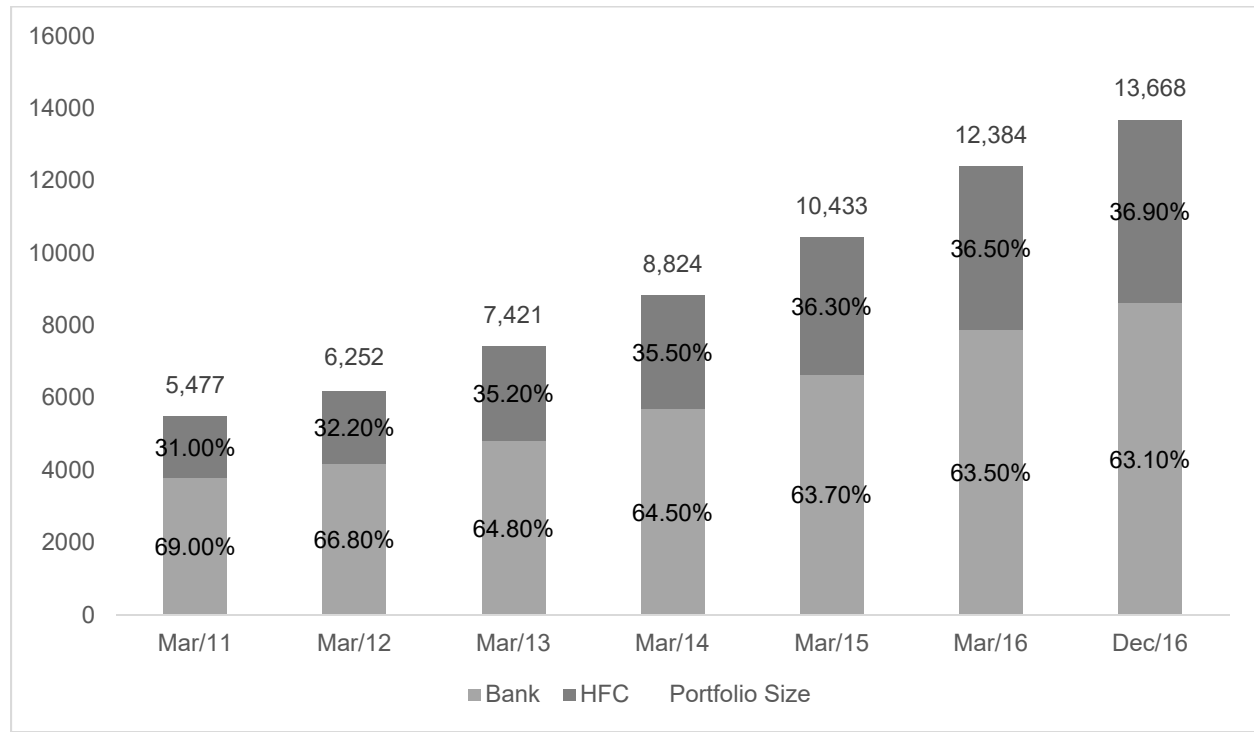
THE WAY FORWARD

In conclusion, the ecosystem built by bringing in the right people, enabled by key infrastructure and a target operating model, along with multichannel marketing, financial discipline, and a performance-driven culture, helped PNB to transform its entire business process, bringing it closer to its customer base. The transformation profoundly changed all aspects of the company's business and personnel, achieving the responsiveness and business dynamism typically associated with private sector companies. These positive results were reflected in its competitive position and scale of operations (see Exhibit 5) and in its human capital efficiencies (see Exhibit 6).

Could PNB count on this phenomenally successful transformation in addressing its next critical milestone, the IPO? As a board member, what course of action would you recommend? Why?

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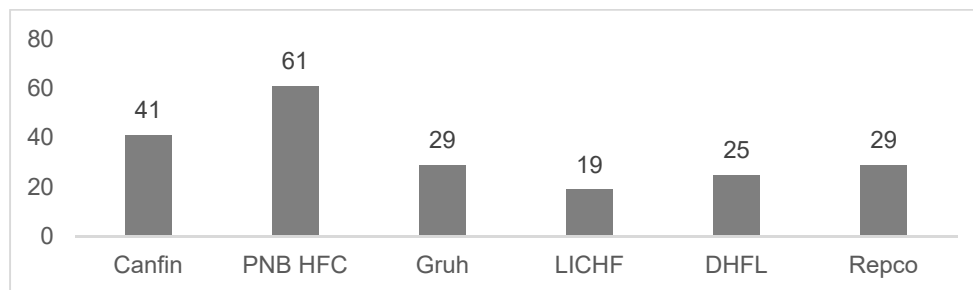
EXHIBIT 1: INDIAN HOUSING FINANCE COMPANIES' SHARES OF HOME LOANS IN A STEADILY EXPANDING HOME LOAN PORTFOLIO, 2011–2016 (IN ₹ BILLIONS)



Note: ₹ = INR = Indian rupee; US\$1 = ₹67.9212 on December 30, 2016.

Source: PNB Housing Finance Limited, *Investor Presentation* (May 1, 2017), accessed June 6, 2017, www.pnbhousing.com/wp-content/uploads/2017/05/PNB-Housing-Finance-Investor-Presentation_May-2017.pdf.

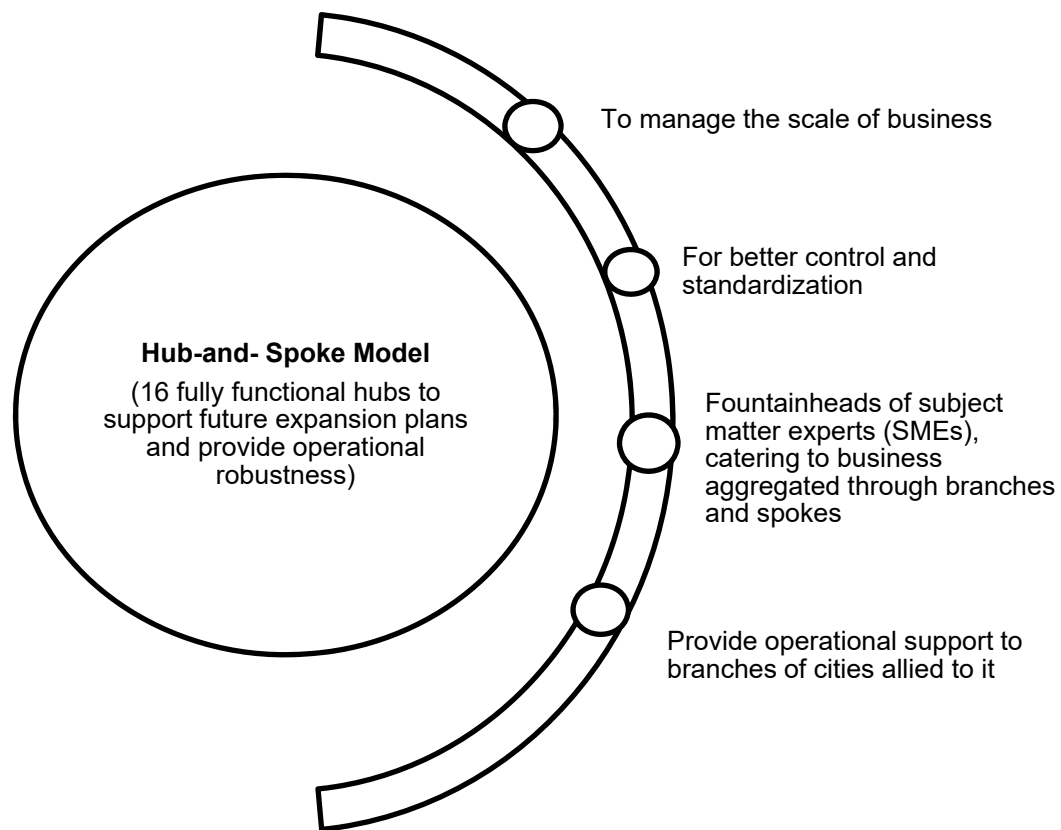
EXHIBIT 2: COMPOUND ANNUAL GROWTH RATE OF LOANS BY PNB HOUSING FINANCE LIMITED AND ITS PEERS, FY 2012–16 (IN PERCENTAGE)



Note: Canfin = CanFin Homes Ltd.; PNB HFC = PNB Housing Finance Limited; Gruh = Gruh Finance Ltd.; LICHF = LIC Housing Finance Ltd.; DHFL = Dewan Housing Finance Corporation Ltd.; Repco = Repco Home Finance Ltd.

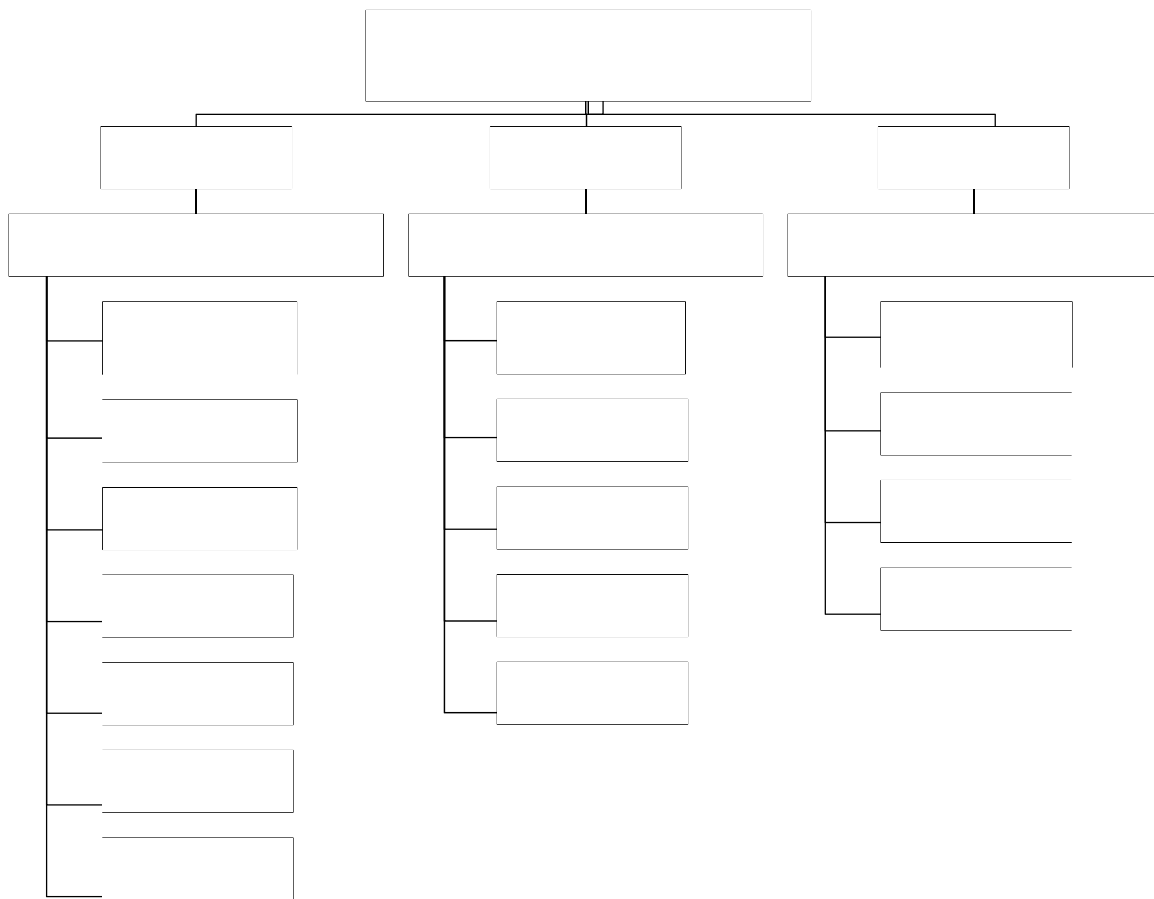
Source: Kajal Gandhi, Vasant Lohiya, and Vishal Narnolia, "PNB Housing Finance," ICI Securities Limited, October 24, 2016, 10, accessed June 6, 2017, http://content.icidirect.com/mailimages/IDirect_PNBHousingFinance_IPORreview.pdf.

EXHIBIT 3A: HUB AND SPOKE MODEL

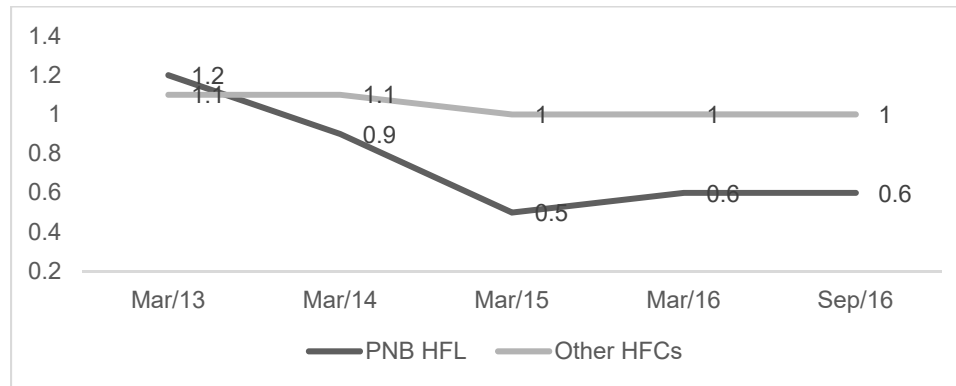


Source: Case authors' compilation from PNB Housing Finance Limited, Kshitiy: The Transformational Journey, June 2017, accessed June 6, 2017, www.pnbhousing.com/wp-content/uploads/2017/05/PNB-Housing-Finance-Kshitiy-Presentation_FY12-FY17.pdf

EXHIBIT 3B: HUB AND SPOKE GOVERNANCE MODEL



Source: Case authors' compilation from "Pan India Branch Network," PNB Housing Finance Limited, accessed April 1, 2019, www.pnbhousing.com/branch-locator n/.

EXHIBIT 4: NON-PERFORMING ASSETS OF PNB HOUSING FINANCE LIMITED AND ITS PEERS, MARCH 2013–SEPTEMBER 2016 (IN PERCENTAGE)

Note: PNB HFL = PNB Housing Finance Limited; HFCs = housing finance companies.
Source: Case authors' compilation from company files.

EXHIBIT 5: PNB HOUSING FINANCE LIMITED'S NET PROFIT AFTER TAX AND TOTAL REVENUE, 2012–2016 (IN ₹ BILLIONS)

Item	FY2012	FY2013	FY2014	FY2015	FY2016
Net profit after tax	0.75	0.92	1.27	1.96	3.26
Total revenue	4.63	6.61	11.16	17.77	26.99

Note: ₹ = INR = Indian rupee; US\$1 = ₹64.8144 on March 31, 2016; FY = fiscal year.
Source: Case authors' compilation from PNB Housing Finance Limited, *Kshitij: The Transformational Journey*, June 2017, accessed June 6, 2017, www.pnbhousing.com/wp-content/uploads/2017/05/PNB-Housing-Finance-Kshitij-Presentation_FY12-FY17.pdf.

EXHIBIT 6: PNB HOUSING FINANCE LIMITED'S HUMAN CAPITAL VALUE-ADDED METRICS, 2012–2016 (IN ₹ MILLIONS PER EMPLOYEE)

Item	FY2012	FY2013	FY2014	FY2015	FY2016
Disbursement per employee	76.0	126.5	135.1	171.6	212.3
Loan outstanding per employee	176.4	227.5	260.2	305.8	399.1
Revenue per employee	20.6	22.7	27.4	32.3	39.6
Profitability per employee	3.3	3.1	3.1	3.6	4.8

Note: ₹ = INR = Indian rupee; US\$1 = ₹64.8144 on March 31, 2016; FY = fiscal year
Source: PNB Housing Finance Limited, *Kshitij: The Transformational Journey*, June 2017, accessed June 6, 2017, www.pnbhousing.com/wp-content/uploads/2017/05/PNB-Housing-Finance-Kshitij-Presentation_FY12-FY17.pdf.