

# Funding Challenges, Information Systems and Committed Leadership- A Study

Padma Srinivasan\*

## Abstract

Leaders play a key role in internalizing change management in organisations. A committed leader works intensely till the transformation is complete. This commitment includes technology adoption, vying for international market, product innovation or diversification and so on. The documentation of the constant efforts leads us to understand the constant interactions between followers and leaders in moving towards bigger picture and increased margins. The leadership style of the head brings in the culture of adherence to certain values and practices to be visible and benched marked in transitioning of “Good to Great Organizations”. The leaders peruse the existing information on the human resource to customize change management communication.

In this paper, the author has studied a transportation company and the leadership behaviour highlighting what the organisation has gone through to achieve milestones, overcome business cycle and funding challenges due to leadership commitment. The prophecy of Bill Blackman always comes true, “Great changes may not happen right away, but with effort even the difficult may become easy.”

Keyword: Banking, Cost of Funds, Employee Mindset, Change Management, JEL E-43, 52

## Introduction

As Peter Drucker puts it, “Unless commitment is made, there are only promises and hopes... but no plans. ”

commitment is the only key to bring in business transition in organisations. The five commitments outlined in this article can be considered the “source code” for the behaviours and actions of effective leaders. They are the foundation of powerful leadership. This framework on commitment has been super imposed on few leaders and found a strategic fit in few companies to understand the vibrancy in the market and company make over.

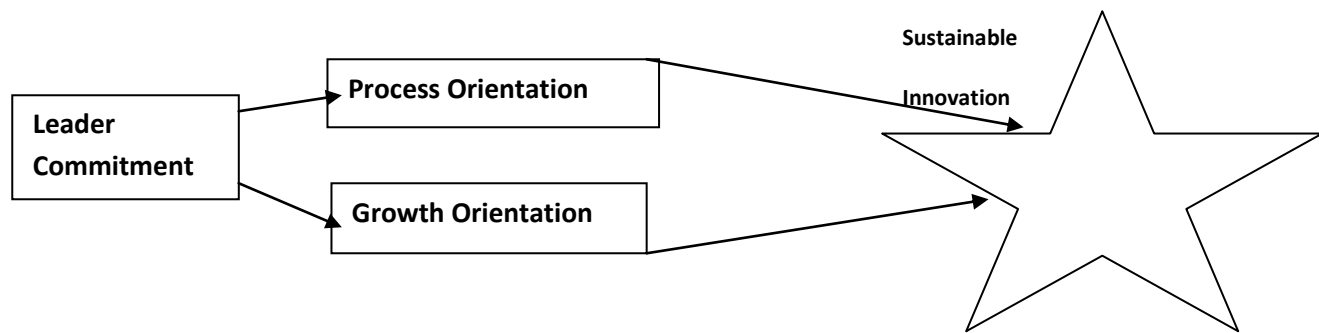
A distinction between what is said about commitments and what is actually done is important here. The concept of a commitment means it shows up in action, not just words. This can be the difference between the “talk” and the “walk. “

The real commitments<sup>3</sup> included here are:

- *To self* - how much you work on developing yourself as a human being, to be the best leader you can be. In fact, it is self-awareness that is the first major step toward becoming truly committed.
- *To people* - how much you really focus on connecting with those around you in order to work effectively with them.
- *To the organisation* - how much you are devoted to the intentions and performance of the place where you work so that you show up with maximum energy and conviction.
- *To the truth* - how much you tell and invite the truth, even when it is hard, in order to keep yourself, others and the organisation on a right course.
- *To leadership* - how much you answer a call to lead and choose to engage in proven, effective leadership behaviours.

\* Associate Professor, Christ University Institute of Management, Bangalore, India. Email: padma.hr15@gmail.com

**Fig. 1: Commitment leading to Innovation**



As a differentiating value, commitment means ‘binding to a course of action; pledge, promise or firm agreement’. The key word here is ‘binding’. A committed leader sees all promises, pledges, and/or agreements they commit to as binding. It is non-negotiable.

Most of these researches have revealed the importance of organisational capabilities in achieving sustainable growth in those high performing organisations. In this context, this survey has emphasized the leadership, market orientation and organisational commitment as the sources of sustainable growth in high performing organisations .Analyses results revealed that two dimensions of market orientation (customer orientation and inter functional coordination) mediate the effects of the change oriented leadership behaviour on organisational commitment.

*Source: Author*

Leaders are to a social system what a properly shaped lens is to light. They focus intention and do so for better or worse. If adaptive intention is required, the social system must be disturbed in a profound and prolonged fashion (Pascale, Millemann, and Gioja, 2000; p.40)

In their important book, Surfing the Edge of Chaos, Pascale, Millemann, and Gioja address the seven disciplines that leaders must pursue if they are to promote transformative change in their organisation. According to the authors, the objectives of these seven disciplines are aimed at addressing the four principles of living systems: foster disequilibrium; surf the edge of chaos; unleash self-organisation and cultivate emergence; disturb but don’t direct a living system. The same disciplines can be applied to therapists and counselors who recognize the need for transformative change in their clients. Let’s look

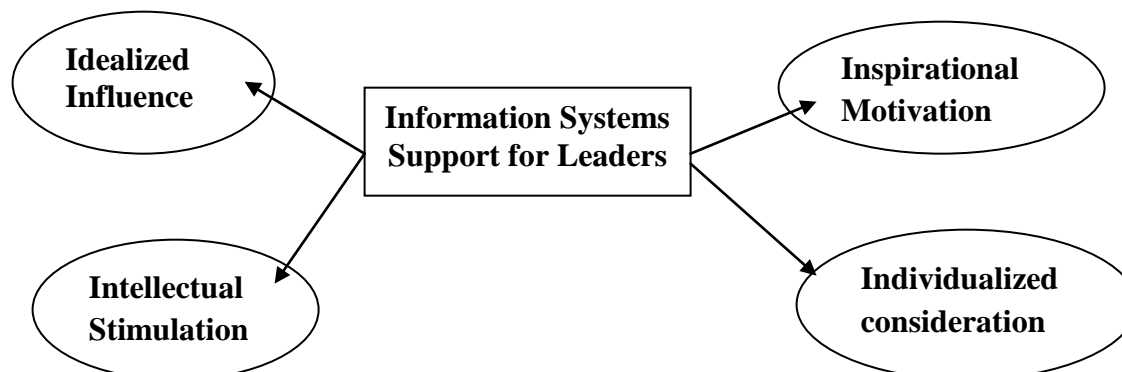
at their seven disciplines as they may apply to the social service and mental health systems.

- Infuse an intricate understanding of what drives success
- Insist on uncompromising straight talk
- Manage from the future
- Reward inventive accountability
- Harness adversity by learning from prior mistakes
- Foster relentless discomfort
- Cultivate reciprocity between the individual and the organisation

The disciplines help organisations sustain disequilibrium, thrive in near-chaos conditions, and foster self-organisation. If taken to heart, they can also foster changes at the individual level . Indeed, they must be internalized if their far-reaching benefits are to be tapped at an organisational level (Pascale, Millemann, and Gioja, 2000; p.229).

## Leaders and Information Systems

The company used here for demonstrating the leadership commitment using the Information Systems is Shriram Transport Finance Corporation Ltd .India’s largest player in commercial vehicle finance was established in the year 1979. The company has a network of 620 branches and 515 rural centres and one of the largest asset financing NBFCs in India with a niche presence in financing pre-owned trucks and Small Truck Owners (STOs).The ‘Right and Relevant Information’ has been the Key Critical Success

**Fig.2: 'Connect' between leaders and Information Support to optimize**

Factor for the success of this Company. The information led to systematic 'Positive Maintenance' of 2nd hand vehicles funded by Shriram Group. The 'Asset Quality Policy System' enabled the sustainability of this NBFC.

The company has indirectly helped in the economic development of the country from past two decades by providing funds to Second hand truck operators who had been left over by the bank and other institutions considering the investment as risky. The transport industry plays a huge role in catering to the demands of the people in the country and efficient supply chain management is pre-requisite for growth in an economy. The system connects the remote branches and enables an ERP for the entire flow of information and funds

### **The Company and the Committed Leader**

The leader suited for this company was instrumental in changing the mind-set of the employees, traditional investors and all the other stake-holders by creating a niche segment with a focus on small customers (truck owners). Today the company has grown into one of the largest asset financing firms (NBFC) in India with an asset worth over Rs. 18, 000 crores and market capitalisation of more than Rs. 36, 000 crore. In the year 1998, the NBFC sector was marred with the RBI's tightening regulation which made thousands of NBFC's to close the companies, But Shriram group who had decent asset quality survived the trauma.

Before being appointed as MD, Sridhar, Vice President was instrumental in many key initiatives taken by the company. Had the transport industry considered as a priority sector lending, banks had to fund a certain portion of funds to this industries but it was considered highly risky. He changed the fund- based model of the company to a more fee – based one by partnering with Citibank and UTI Bank (now Axis Bank). In three years, portfolio sales to the two banks crossed above Rs 5,000 crore.

The company slowly started to build the customers and due to excellent asset quality. The company decided to fund on its own with the help of venture capitalists and foreign Institutional Investors. STFC is the most tracked stock by institutional investors and foreign institutional investors which holds 63 per cent of its equity. When Mr R Sridhar, CA by professional, was appointed as MD in 2005, STFC was a medium sized non-banking finance company, or NBFC, with assets of Rs 2,000 crore, a net profit of Rs 50 crore, and a market capitalisation of Rs 500 crore.

### **Business Model and the Challenges of NBFC**

Shriram Group is a financial services conglomerate founded on April 5, 1974 by R. Thyagarajan, AVS Raja and T. Jayaraman. They have their headquarters in Chennai, Tamil Nadu, India.[1][2][3] The group had its beginning in chit funds business and later on entered the

lending business in a big way through Shriram Transport Finance (Commercial Vehicle Finance) and Shriram City Union Finance (Consumer and MSME Finance). R. Thyagarajan also won padmabhushan award in 2013 .

The Business model of the company to fund the Second – hand Truck operators were considered as highly risky by the banks and other investors. This created a huge problem for the company in channelizing the funds to the credit starved transport industry. The main challenge faced by Mr. Sridhar as the leader, was to bring a change in the mindset of the people. The RBI regulations on the Finance Sector in accessing the funds from the public created another major drawback. Fig. 3 describes effective leadership behaviours.

The company was overly dependent on the Institutional source for funding the business. There was no existence of collateral or any kind of security for the funds and it was purely depended on the relationship of the customers. The replacement demand is very sluggish in India having the average fleet operated life around 10-11 years when compared to 5 to 6 years in developed countries. It was hindered due to no formal replacement finance available in the country.

### Way to go forward

Initially STFC tied up with banks and transformed the company from fund-based model to fee-based model. Later, once the funds started flowing into the company, it switched back to fund-based model. It developed a relationship-based model instead of a due –diligence based where all the stakeholders like employees and entrepreneurs were involved in the process. They created a sense of entrepreneurship and responsibility among the employees by providing authority to handle both the sales and credit of a particular customer. This helped in building better relationships among customers and proved to a very successful model. Has the business model not had any collateral and the only asset which is the truck which is always on move, the employee had greater responsibility in collecting the receivables from the truck operators on time. The business was wholly run by the sales team; they were the touch point of contact for the customers. They also funded the working capital to the truck owners for purchasing tyres and for other maintenance. Fig. 4 highlights pillars of organisational success.

The business model of financing second- hand trucks has helped in creating a replacement demand to the

Fig. 3: Effective leader behaviours



Fig. 4: Pillars of organisational success



available trucks. They focused only on small customers who were socially backward and people who were not able to avail the credit from banks due to non-availability of collateral. The company took almost 25 years in changing the mindset by creating a brilliant track record and excellent asset quality. It has also helped in getting easy access of funds from banks and other financial institutions. They are also the only company in India to fund without asking for post-dated cheques. They were the first company to bring institutional credit to this segment. The relationship built between the customers did not depend on the documents and collaterals instead they collected the money by persuading the customers to repay and provided all kinds of financial help.

### Financial Inclusion as the future Milestone

“Shriram Group, which started as a chit fund company, is now aspiring to be a bank after building successful consumer finance and truck-funding businesses.” says GS Sundararajan, Group Director.

Since you have applied for a banking licence, the talk of differential bank licences is gaining currency. Does that prompt a change in your thinking?

The new draft on differential banking and continuous authorisation is very good. Compared to a universal bank, all norms can be different for a niche bank — capital

adequacy, provisioning norms. If RBI asks us to do 30-40 percent of corporate banking, we will not be able to do. We want to be SME and retail bank, largely dealing with financial inclusion. There are a lot of changes we see in the banking regulation, which will enable people like us to become banks. We may not be first in the list, but whenever we get, we will get with those regulations changed.

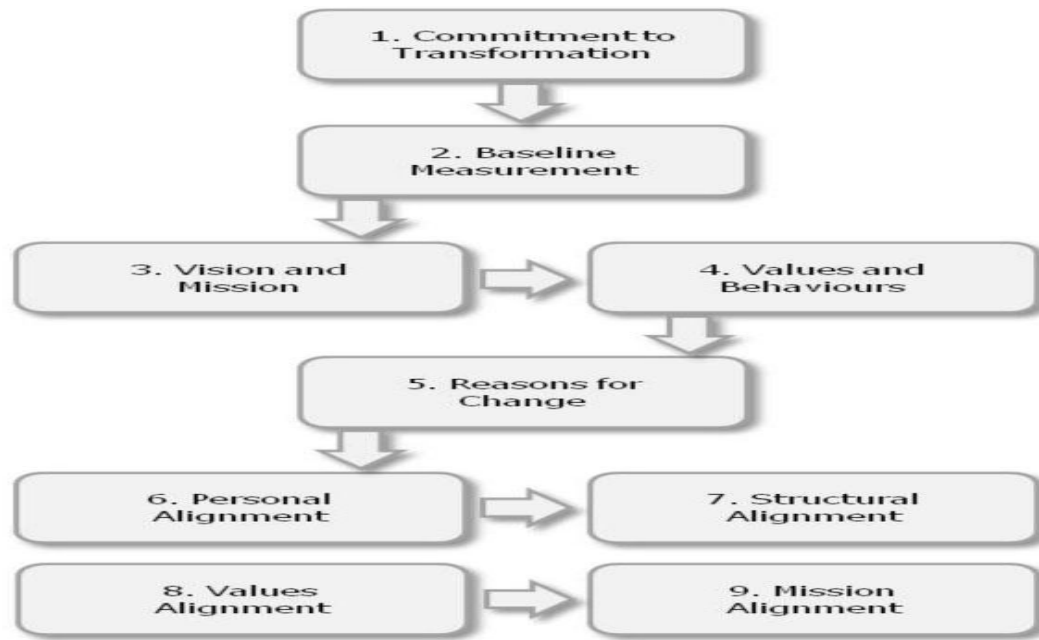
What should be done to increase financial inclusion on ground?

If banks have to get into financial inclusion, it can happen only if two things happen. First, RBI facilitates that there is 20 percent of your portfolio, which can be higher risk, and therefore you go ahead and lend to these customers. Second, they should also allow different kinds of income recognition, loss recognition, provisioning norms.

### Leaders' Focus

Sridhar's innovative strategies have helped in bringing STFC the much stability it needed. The company has diversified itself into Consumer Finance and Insurance which is considered to be the next growth sector for the company. It has plans of increasing portfolio of assets by acquisitions of similar NBFC's. The next thrust area is considered to construction equipment finance in 3-5 years because of the infrastructure growth required by the economy and their existing customers upgrading themselves to become contractors.

**Fig.5: Commitment leading to transformation.**



## Conclusions

Mr R Sridhar has played an important role in making the company to grow to this stature today; it has helped the company to become the best NBFC in India. It was achieved by employee involvement and unique proposition of funding the niche segment of small truck operators which was completely based on relationship model. Acclaiming the achievements of Sridhar, Business today named him as on the Top 10 CEO's of India in the year 2012.

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