

## Criticality of Human Resource Processes in Indian Banking Industry

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Recent time has witnessed the world economy develop serious difficulties in terms of lapse of banking & financial institutions and plunging demand. Prospects became very uncertain causing recession in major economies. However, amidst all this chaos India's banking sector also need to work and thrive to become resilient and the most effective tool possible is by focusing on its Human Capital and managing it.

Human resource management (HRM) is the effective management of people at work.

Since a firm's human resources are an important potential source of sustained competitive advantage, managing them well helps create unique competencies that differentiate products and services and, in turn, drive competitiveness. This need intensifies more when it comes to the service sector industry like banking.

Though PSBs have slowly started implementing the new age banking technology to meet the challenges, the real differentiation can only be made by fundamental reforms in the area of human resources. Still the banks need to frame their own organization-specific HR policies and systems and leverage people capabilities to reposition themselves at the marketplace. Such a reform agenda would need to get top-level attention for organization wide impact. The paper presents an insight into such this critical aspect and explores the initiatives required to be taken.

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### **Introduction:**

The reforms process in Indian Banking sector has embraced many components: financials, asset quality, prudential norms, and technology, opening of private sector banks and foreign banks and human resources (HR). Which also stand to pose great challenges for the industry? While far-reaching reforms have been set in motion and largely implemented in areas like financials and prudential norms and to an extent, in the area of technology, reforms in the area of HR have been lagging behind and halting, to say the least. No doubt, some measures were initiated in the matter of grant of autonomy to public sector banks on the basis of certain defined criteria and schemes like VRS were implemented at the turn of the century.

However, these were not enough to create the desired impact in the area of HR.

It is pertinent to mention here the widely acknowledged fact that even in the era of high technology, it is the quality and the skills in human capital that will give a competitive advantage to a business organization. Successful organizations will be those which skillfully and imaginatively align and organically integrate their HR and technology policies, in order to get best value from both and leverage them for enhanced business performance. The world is shifting from an industrial to knowledge economy in which the value of intangible assets is increasing and value of tangible assets is decreasing. By an estimate of the Booker Study, the percentage of market value related of intangible and tangible assets was 38 per cent and 62 per cent, respectively, in 1982, which increased to 68 per cent and 32 per cent in 1992. Today, more particularly in the service sector, the sales turnover is directly proportional to the level of customer confidence in the company/organization, which is further impacted by effective

customer service and customer relationships. In order to have a cutting edge in this area, the right kind of technology is not sufficient – rather a proper organizational climate and the right people competencies become more critical.

### **The HR practice in Public Sector Banks (PSB)**

The new private sector and foreign banks had aggressively entered the market with many advantages like younger and talented staff with newer skills and competencies, a market related compensation structure, new technology, high marketing orientation and newer methods for acquisition and retention of customers and a lean and mean organization structure. Their penchant for innovations in products and services and their quality and speed of responsiveness to the customer and the market were attracting customers – largely taken away from PSBs. At the centre of all such initiatives, these banks enjoyed the advantage of full freedom in regard to not only technology but also more importantly, human resources. These banks skillfully and smartly leveraged a right mix of technology and manpower, to acquire and gain competitive advantage from day one.

Till the advent of the new century, PSBs continued to remain at a disadvantage in the area of both technology and human resources. While significant measures were initiated and implemented in the absorption and use of technology for branch level operations, some at the instance of the government and others at the initiative of the banks, reforms in the realm of HR were still to come by.

In the absence of these reforms, PSBs were clearly at a disadvantage at the marketplace. Apart from the absence of a level playing field in the matter of age, quality, talent, skills, competencies of the staff, PSBs continued to bear the impact of the highly regulated and centralized HR system. They could not recruit and induct young talent in tune with the emerging requirements.

Their training system continued to be nebulous and did not develop the right mix of skills and competencies. The promotions under the standardized regulations have resulted in several inconsistencies in various cadres. They could not also contain the flight of talent to the new banks on account of a skewed compensation structure. In the matter of deployment of staff, PSBs continued to be governed by industry and bank level settlements, resulting in high rigidities in their ability to deploy them as per need. Even in the area of performance appraisal of officers, PSBs have been following a common one-fit for all formats, which does not take care of individual organizational needs. The net result was that the PSBs had to compete with the best in the market, with inadequate and inappropriate HR policies and systems. Equally important is the fact that PSBs continued to depend and rely on the government for advice and direction on every critical issue in the domain of HR. This, in turn, did not create a facilitative and proactive environment in PSBs for setting in motion improvements in HR policies and systems.

Traditionally, HR function in PSBs focused on establishment and administrative roles. With the passage of time, industrial relations (IR) had come to occupy a central place in the HR domain. Issues in HR were largely dictated and driven by the agenda of the unions, which were essentially in the nature of ‘demands’. Bank managements often shied away from raising issues of substance relevant to HR reforms. It was more of buying peace than strategically leveraging interpersonal relations for business and productivity improvements.

Very little higher order focus and attention was being paid to more critical issues like staff training and development relevant to the new era, management development and succession, leadership development, acquisition and honing of new skills and competencies, performance

measurement and management and the like. Indeed, the very HR systems and sub-systems did not keep pace with the emerging requirements of the competitive marketplace, which was witnessing major innovations in banking products and services, in providing multiple delivery channels and in significantly improving service quality to the customer.

One other fallout was that HR was confined to being a departmental function and did not occupy a central place in the top management agenda. Apart from discussing routine items in the area of HR, bank boards did not consider it necessary to revisit and realign the HR domain in tune with the rapidly changing times, possibly because of the perception that HR issues are governed by government regulations and they were left with little headroom in this area. Unlike many other progressive public sector organizations like oil companies, bank board's also did not have any domain specialist in the area of HR as a member. This in turn did not promote professionalization of HR functions in line with the changing times and the changing market realities. In essence, PSBs did not have a professional spokesman and champion in the higher echelons for spearheading HR reforms.

Yet another critical challenge before PSBs was how to smartly leverage a right mix of technology and manpower, given the skewed age structure and skill profile of the staff. While on the one hand, PSBs were investing large sums in technology, they were seriously constrained in the absence of freedom and ability to right size and deploy the manpower at different operating units spread across the length and breadth of the country. This was so because the mobility of manpower was constrained by both industry and bank level settlements/understanding. Added to this was the large-scale prevalence of restrictive practices in different branches of the banks. These practices regimented the ability of the banks to deploy manpower to perform multiple functions as per need. Multiple designations and multiple allowances embodied in the industry level settlements further restricted the banks' ability to deploy and use manpower in tune with the fast changing requirements. Many of these provisions in the settlements thus became major irritants in their deployment scheme. The HR issues and the need and compulsions for HR reforms hardly find a place even in conferences, seminars and meetings organized at apex level by bodies like the Indian Banks Association (IBA) etc.

### **Comparison of HR Practices between the public and private sector banks**

The emerging landscape of competitive banking calls for organization wide HR reforms in banks. Without being burdened by the legacies of the past, PSBs have to now make HR the central theme of their organizational transformation exercise, which alone can bring differentiation and competitive edge in the race for technology-enabled banking.

The centrality of HR in such phases of organizational change is a proven fact. Many studies also highlight the inevitability of strategic alignment of HR with business, and, equally, the criticality of HR in influencing the overall business. A study of financial analysis and portfolio managers cited by Ulrich D and others in "HR Scorecard: Linking People, Strategy and Performance" (Harvard Business School) indicates that 35 per cent of investment decisions are determined by the nonfinancial information such as: (i) Execution of corporate strategy, (ii) Management Credibility, (iii) Quality of corporate strategy, (iv) Innovation, (v) Ability to attract and retain talented people, (vi) Market share, (vii) Management expertise, (viii) Alignment of compensation with shareholders' interests, (ix) Research Leadership, and (x) Quality of major business processes. There exists a sector wise difference between the HR practices being followed in

public and private sector banks which have resulted into certain strategic implications in terms of productivity and behavioral responses of employees.

Literature indicates that the performance of the private and foreign banks have been stronger than that of public sector banks (IBA, 2008). A recent study (Selvaraj, 2009) reveals that private banks are more successful vis-à-vis public sector banks in terms of implementing Total Quality Management (TQM) initiatives, such as human resource management, customer focus, and top management commitment. Furthermore, public and private sector banks differ with respect to their compensation structures, working environments, technology, growth opportunities, and job security provided to the employees. Public sector banks structure compensation in a way such that there are lower pay differentials between the employees, long-term tenure is rewarded and there is a high base pay, whereas in the private sector banks, there are larger pay differentials, fewer rewards for tenure, and pay for performance (D'Souza, 2002). In addition, the working environment in private sector banks has been found as growth driven, technologically advanced, and devoid of bureaucracy, where employees' promotions are highly contingent on their performance and merit. However, private sector banks do not provide job security and would lay off their employees in cases of poor performance or adverse market conditions (Jha, Gupta & Yadav, 2008). Bajpai and Srivastava (2004) studied the satisfaction levels of employees of two public sector and two private sector banks in India. The results indicated that layoff threats, quick turnover, less welfare schemes, and less scope for vertical growth increased job dissatisfaction. In contrast, secure job environment, welfare policies, and job stability increased the degree of job satisfaction. In their study, Kumudha and Abraham (2008) compared 100 managers from 13 public and private sector banks and found that the programs related to self-development, information about job openings, opportunities to learn new skills and retirement preparation programs greatly influence the feelings of career satisfaction.

Public and private sector banks also differ with respect to their background and work culture. It has been observed that the work culture of public sector banks was based on the concept of socio-economic responsibility, in which profitability is secondary.

The details of category wise distribution of Bank Employees in Commercial banks have been given in appendix- 1

On the other hand, private sector banks work towards profitability. Because these differences between the sectors hold an important factor in shaping the work culture of an organization, it needs to be explored how they would likely affect job satisfaction. For the success and sustained growth of Indian banks, it is imperative to create a pool of committed employees by determining whether they are job satisfied. Their satisfaction would affect their performance and commitment, which would eventually influence the banks' growth and profitability.

According to the Hudson report (2008) the critical HR challenges are hiring right staff, retaining talent, cutting staff, staff development, salary inflation, external threats, etc. The other challenges are changing working conditions, re-skilling, compensation etc. Coping with the massive technology adoption programme – change management from employees' as well as customers' perspectives. Some of the management concerns are:

- Marketing HR services

- Human assets
  - Man-power planning
  - Talent management
  - New approach to performance management
  - How HR can act as the ‘corporate glue’ or ‘organizational conscience’
  - Making the most of human capital
  - Customers- who are they, and what do they want?
  - Towards a framework for continuous development and learning
  - Challenges facing HR today – attracting, retaining and motivating talent
  - Implementing recruitment and resource-based strategies
  - Where HR fits in the modern central bank
  - Managing people and linking with technology in banking operations needs to be prioritized.
- The figure 3.1 below depicts a SWOT Analysis of HR practices in Indian Banks.

**Figure : SWOT ANALYSIS OF INDIAN BANKS (IN HR CONTEXT)**

| <b>Strengths</b>   | <b>Weaknesses</b>  |
|--|--|
| <ul style="list-style-type: none"> <li>• High skilled personnel in middle and low levels in the banks.</li> <li>• Aggression towards the development of the existing standards</li> <li>• Strong regulatory impact by central bank to all banks for implementation</li> <li>• Presence of intellectual capital to face the change in implementation with good quality</li> </ul> | <ul style="list-style-type: none"> <li>• Poor technology infrastructure</li> <li>• Presence of more number of smaller banks that would likely to be impacted adversely.</li> <li>• Poor compensation system</li> <li>• Poor talent management.</li> </ul>      |
| <b>Opportunities</b>   | <b>Threats</b>   |
| <ul style="list-style-type: none"> <li>• Availability of fresh talent to strengthen the bank operations.</li> <li>• Increasing risk manage expertise.</li> <li>• Need significant connection among business, credit &amp; risk management and information technology</li> </ul>  | <ul style="list-style-type: none"> <li>• Inability to meet additional capital requirements.</li> <li>• Huge investment in technologies.</li> <li>• Entrance of foreign banks to capture talent HR.</li> <li>• Increasing the cost of human capital.</li> </ul> |

*Source: Jagannath Mishra & Pankaj Kumar Kalawatia: Basel II: Challenges Ahead of the Indian Banking Industry 2008*

SWOT analysis indicates number of strengths and opportunities to grow in the competitive direction. However, the weakness and threats are also serious and need attention immediately.

While there is presence of intellectual capital, there is also a threat of increasing the cost of human capital.

#### Narasimham Committee Recommendations on HR

The Committee on Financial Sector Reforms, popularly known as the Narasimham Committee constituted by the government to recommend fundamental reform measures in banking and financial sector, had provided strong arguments in its first report in 1991 for far-reaching reforms in the area of organization and methods, systems improvement and issues related to human resources – along with reforms in the operational areas.

The second Narasimham Committee report (1998) laid renewed emphasis and necessity on parallel reforms in HR. However, the recommendations of the Narasimham Committee remained largely unimplemented for several years, barring some recommendations like the abolition of bank service recruitment boards (BSRBs) and implementation of VRS, etc, until the announcement of the managerial autonomy package in February 2005.

The recent autonomy measures mostly based on the Narasimham Committee II recommendations, announced by the government set a new road map for PSBs, albeit in a limited manner.

Refer Table in appendix 2

### **Makeover Initiatives required by the banks**

The banking industry in India needs to adopt the following Makeover Initiatives measures in order to flourish:

- **Significant Improvements in Employee Productivity**

There lies a need to raise the productivity level of bank employees. Improvement in productivity standards could be brought about by massive skill up gradation, creating digital competencies to handle operational challenges of core banking, rationalization of manpower mix at branches, role re-definition, etc. Further, banks would have to find ways to tackle the manpower size, post-core banking implementation.

The committee of financial sector reforms has also strongly advocated the need for addressing issues of excessive manpower by way of redeployment into new business areas after suitable skill upgradation. However, caution would have to be taken in designing such schemes on a selective basis, as it should not disturb the already skewed manpower profile.

The manpower deployment pattern would also have to be reexamined beyond the constraints of settlements. The mobility of staff with the objective of increasing his/her job horizon is yet another alternative, which bank need to explore for increasing knowledge about customer needs and for improving their service efficiency level. PSBs also need to recruit young, competent and business savvy officers and front line staff who could provide effective sales and customer service.



Fast promotion of young but competent employees provides yet another opportunity for banks to ingeniously improve productivity levels. Through interventions like role redefinition of front line staff and also of officers, several job enlargement and job enrichment initiatives could be taken which would go a long way in enhancing service quality and productivity standards.

### **Role of Management**

Given the criticality of HR issues in the success of business strategy, they need to be properly debated at the board level. The bank management now needs to spend quality time on formulation and deliberation of HR strategy, involving leadership development, succession planning for critical levels such as GMs/ DGMs/business heads, territorial heads, etc, performance standards, redesign of organizational structure, compensation and rewards management, and other initiatives needed to create a proper organizational climate. Constitution of a board level subcommittee for monitoring and facilitation may further provide the desired thrust.

Banks should now design and put in place a written policy and a blueprint for HR reforms. This would provide direction and focus in undertaking various interventions in an integrated manner. Such a policy document should necessarily get the board approval. The CEOs' main task will be to ensure capability building and use it as a differentiator for gaining competitive strength to his/her organization. CEOs would also have to take ownership of HR, which would then ensure involvement of top echelons of the management in employee development initiatives.

At a time when most banks are undergoing technology-driven transformation and M&As appear inevitable, the CEOs would have to spearhead the transformation journey, champion HR functions to reduce peoples' anxieties and simultaneously seek higher levels of productivity and performance.

### **Training and Development**

When such dominant and organization wide changes are aimed at in Banks through behavior modification and learning initiatives for a large number of people who have divergent needs spread over geographically dispersed territories, one can gauge the scale of training and development efforts required. When the organizational transformation is underway, carrying out massive training and development programmes is an uphill task, as business continuity would also need to be taken care of. The intent is successful transfer to and acquisition of knowledge and skill content by the target group. Training should be aligned with the business requirements of banks. The focus of training must now be on changing the attitude of people to become customer centric, on enhancing selling skills, service delivery, bringing cultural alignment and also to transform them into entrepreneurial managers. Preparing a programme for creating digital awareness and developing people competencies to operate in technology oriented banking environment is another major issue to be addressed in HR today. Executive education should also become a continuous activity. There should be a collaborative partnership with prestigious Indian and global business schools to impart the desired executive skills. The training system also needs to be scientifically assessed for its effectiveness.

- **Career Management Systems**

Employees need to be made aware about various career streams available within the organization, which they can think, plan and aspire for growth. There must be suitable

interventions and processes to facilitate employees to choose their career options by way of counseling, development inputs, role exposure, and deployment initiatives, etc.

#### Measures of Organizational Renewal

Organizational renewal measures like HR audit, organizational health survey, and employee satisfaction survey should be undertaken to remove systemic deviations and enhance organizational maturity. Action research needs to be initiated for finding solutions to operational issues and for continuous improvements in organizational systems and practices. Innovative employee involvements programmes need to be undertaken for creating organization wide impact and change. In the absence of these powerful systems/instruments, an aberration in HR operational matters exists which has resulted in high cost and low efficiency level.

Banks must also focus on enrichment of the organizational culture, a long and continuous process. There is a strong need to understand aspirations of individual employees, what he/she perceives about the organization, how much he is satisfied with employee systems and how effective the various sub-systems of the HR are in delivering satisfactory service to internal customers, i e, employees. Periodic analysis through organization wide surveys must be undertaken and the outcome of such surveys could be taken as feedback for rationalization and improvement of HR systems and policies. HRD audit in all the vital areas like training, performance management, compensation and benefit administration, recruitment, and promotion has a far-reaching effect in reducing deviations, plugging revenue leakages and improving system effectiveness.

Internal communication system is a powerful tool for change management, which banks need to focus on. Employee communication system within the organization must be made easy, flexible and responsive to ensure free flow exchange of information.

The current culture of top-down communication should also accommodate bottom-up communication for greater employee involvement in improving organizational systems. HR has to play an important role in reaching out to people through innovative channels like the intranet, employee feedback, etc, and establish a forum for constructive interaction.

These proactive steps would certainly change the thinking in the management, leadership style, attitude of staff and more importantly would bring about a good HR governance system in the organization.

#### **Development of desired set of Knowledge, Skills and Attitude**

Though skill development is a requirement at all levels, it becomes far more critical given the fact that the staff in Banks is unskilled and have developed a narrow perspective of their role and the customers especially in case of public sector banks. Compartmentalized working and limited mobility must be addressed through composite work processes organized in customer groups and by providing geographical relocation. Given the sizeable presence of PSBs throughout the country and the large workforce employed in branches, there is a need to prepare manpower deployment and utilization plans in such a way that employees are provided cross-functional and cross-cultural exposure to develop their sensitivity and ability to cope with issues and resolve them. Also, comprehensive training on sales and service skills, communication, attitude and behavioral flexibilities is a must. Banks need to look at the way sales are handled by new age nimble players in the market and the way customer queries are resolved at customer call centre.



Apart from the front-line staff, skill gaps too exist at middle and higher-level employees. Suitable skill enhancement programmes would have to be initiated in tune with the organizational requirements. In this area, banks may look for association with professional institutions. Primarily the gaps are in handling technology and work flow systems, analytical abilities, selling skills, risk assessment, planning and coordination, customer and market responsiveness, etc. PSBs in course of time have grown in rural, urban and metro areas having a different culture and ethos. Within the organization, there exist wide people diversities. Issue of diversity management and creating a unified change spirit is yet another agenda to be undertaken by the bank and HR professionals would have to play a major role in it. Managing a large number of women employees, slow pacers, non-performers and high performers are some of the complex tasks ahead. Integrating and balancing them without major upheavals and creating a motivational climate within the organization is really challenging. Definite strategies need to be adopted.

### **Knowledge Management Initiatives for Learning and Growth**

The 21st century is characterized as that of the 'knowledge economy' and 'Experience Economy' where increasingly the contribution of the service sector to the GDP of nations including India, is rising. It is evident that a lot of attention will have to be paid to the neglected area of knowledge enrichment, and development of intellectual capital for enhancing the overall value of human capital. This is all the more relevant in the case of our country whose competitive strengths include its rich human capital.

The banking sector being a constituent of the service sector would continue to rely heavily upon human capital as a differentiator for providing a competitive advantage. For Banks to be able to achieve high standards in product and service delivery at a competitive price, innovation in work and management practices would be a must. This can be brought about only through continuous knowledge enrichment and process improvements possible with knowledge management.

Banks should focus on the creation of an intellectual resource base within the organization. Banks also need to develop a culture of knowledge sharing within the organization through measures like e-learning and distance-learning mechanisms, etc. The existing knowledge barriers in the form of knowledge islands within the organization need to be erased to enable free flow and exchange of information for common benefit. A clamor for knowledge and information must be seen within organizations. The Knowledge Management platform, widely prevalent in software organizations, is perhaps an apt example of how intellectual worth can be enhanced through better innovations, and greater knowledge enrichment. The Banks could emulate this practice.

### **Compensation, Motivation and Reward Mechanism**

Banks need to evolve such compensation standards, which can provide a linkage between risk and reward, performance and payment. Though, the current system of industry level wage settlement provides lesser leeway, slowly and surely the compensation system would have to be repositioned to take care of specific organizational needs. Even the need for graduating from the industry level wage settlements to individual bank level settlement in the matter of compensation and reward has been stressed strongly in the Narasimham Committee Reports I and II. The current flat pay structures across all the PSBs only provide disincentive for high performance.

Under the recent autonomy measures, banks can now provide differential pay packages to recognize special skills and also high performance. This would definitely result in greater motivation for high achievers and inducements for those who are not performing but need to perform. Perhaps the time has come to graduate to variable pay linked to individual performance, as a component in the total package.

Banks would have to find ingenious ways to reposition the overall compensation and reward system from the currently 'hygiene' level to the level of 'motivators'. PSBs hitherto have not yet explored the potential of providing rewards, based on individual performance. With the retail sector booming, the time has come to cash in on it by providing achievement-linked bonuses on the lines of pharmaceutical and FMCG companies.

### **Development of Competency Based Strategic HR Systems**

The time has come for Public Sector Banks to shed their administrative and IR orientation and strategically aligns the HR systems and processes with business objectives. The HR organization structure must focus on the critical requirements of banks such as how effective and need-based training can be imparted to different business divisions, how recruitment and promotion policies can answer specific manpower needs, how compensation and reward systems can be designed to attract and retain the best talents from the market, how talent within the organization can be identified and nurtured for future requirements, how front line staff can be trained in providing effective customer service.

In order to provide satisfactory answers to the above questions, systems and policies would require re-design with 'competency' as the sole justification or criterion. Further, various sub-functions which clearly and structurally do not find a proper place in the current set of HR functions in banks, like succession planning, organization development, talent management, career planning and development, etc, would have to be taken up as identified streams of HR activities which could deliver value to the organization.

The strategic alignment of HR to the business also necessitates induction of professionals competent enough to handle the challenges and able to deliver. PSBs today have a shortage of such people in-house, and they would have to induct people at lateral level not only in the HRD area but also in other areas where skill shortages exist like IT architecture, networking and security, marketing and e-business, risk management, strategic planning, economic analysis, etc. There is also a need for benchmarking various organizational systems including HR with the world-class processes and systems so that the international quality standards in service delivery permeate Indian banks.

### **Implementation of Human Resources Management System (HRMS)**

It is necessary for large and highly dispersed organizations like PSBs that they have in-depth knowledge about its people, their abilities, expectations, career profile, etc, so that decisions pertaining to HR can be effectively taken. It is equally important for PSBs to reduce administrative aberrations, owing to the geographical spread and decentralized nature of HR functioning.

There is also a need for streamlining their HR operations and reduce costs so that the productivity of HR can be increased. Organization wide HRMS, which can integrate various sub-systems of HR and provide a 360-degree view of people and functions, could provide the much-

desired answer. Web enabled enterprise wide systems are available, which the PSBs can make use of. This would drastically reduce/eliminate the deviations in HR processes and decisions; reduce operative costs and response time for HR deliverables and would also enable banks to use HR information as a resource base for decision making.

Such a system would also enable HR professionals to focus on real issues of people development instead of being engrossed in routine and compliance-oriented functions. An

HRMS platform would also enable the bank to establish a work flow based processing system and provide employee self-service functionalities which would then lead to increased employee involvement and motivation. The ultimate benefit of having

HRMS is transparency in HR governance and cost-effective human resource management, which adds value to the organization.

### **Institutionalization and Implementation of Performance Measurement and Management System**

Though the system of employee appraisal has been in vogue in banks, it has not helped in developing an organization wide performance culture in Banks. The system often fails to differentiate performers from non-performers, average performers from high performers. Reforming the performance appraisal system by making it more objective and linked to corporate business objectives is the need of the hour. Key performance indicators

(KPIs) need to be scientifically assessed and objectively linked with organisational goals so that the performance of employees can be assessed on critical parameters. The appraisal system should also be revisited and mechanisms like a 360-degree feedback system need to be religiously introduced for an overall culture change in the Banks.

Banks also need to institutionalize new performance measurement systems like a balance score card, activity based costing etc, which could provide real linkage between key performance variables and individual efforts so that a realistic, organized and predictable pattern is available for performance analysis and review.

### **Development of Leaders for Critical Roles**

This is a high priority area considering the fact that no organized leadership development system exists in PSBs. Banks have to quickly create and nurture a supply system for leaders. Banking operation requires leadership at three critical levels, i e, strategic leaders (corporate level), operational leaders (regional and zonal level) and tactical leaders (branch managers). There must be a proper system of identification of employees having strong leadership potential to lead people in teams at these levels and can deliver as per expectations. These people need to be groomed through diverse role exposures, customized training and development inputs and also through planned career progression systems.

The industry is passing through a transformational phase where many challenges have to be addressed. It also requires at this point of time a high level of dynamism in top echelons of management who can spearhead reform measures. Unfortunately, there is a huge demand-supply gap at this level. Banks perhaps need to focus on ingenious method to create a pool of leaders who have strong and wide vision, are quick yet effective thinkers and sound decision-makers, and have strong relationship skills. Since this is an arduous journey, Banks need to institutionalize the process of leadership grooming as a continuous organizational process

Exhibit 1- Few Employee- Centric initiatives taken by Bank of Badoda

During this period, the bank also introduced various employee-centric initiatives viz. KHOJ (Talent Identification & Development Programme), PARAMARSH (Personal counselling of employees), SAMPARK (Chairman's helpline) and IDEAONLINE (harnessing employees' ideas).

**KHOJ**

The bank launched an innovative, organization-wide talent identification and development programme called 'KHOJ', which means 'search' in Hindi. Through a scientific process of identification and a rigorous selection procedure (which included psychometric testing as well as knowledge testing), the bank identified around 650 employees with high potential for key business areas like credit, foreign exchange, treasury, marketing and sales, etc., who were then put through intensive training and grooming.

**PARAMARSH**

In four major cities, the services of a professional counselor were made available at the centre and employees could avail the counseling service free of charge for resolving any psychological problems/worries that may be disturbing their personal life and affecting their work – life balance.

**SAMPARK**

The bank introduced the Chairman's helpline as a mechanism for employees to approach the Chairman and Managing Director directly in difficult and extraordinary situations, requiring immediate assistance. This cut down on procedural delays, and immediate decisions and relief could be provided to employees in acute distress.

**IDEAONLINE**

A new forum for sharing creative and innovative thoughts and ideas ([ideaonline@bankofbaroda.com](mailto:ideaonline@bankofbaroda.com)) was set up. It was set up in the belief that information and creative thinking are increasingly the value drivers for the organization. Employees take great pride in being involved in the incubation and development of their idea into a workable proposition creating value for the organization. This has unleashed the power of small ideas necessary for transforming the bank into a universal financial services organization committed to providing the best to its ever-growing customer base and to its stakeholders.

These mechanisms considerably improved employee motivation, which was reflected in numerous employee communications showing their appreciation and happiness at the speed of action and the concern and care shown for employees.

**Conclusion:**

Indian banking has entered the new era of technology-enabled and customer-centric banking. It is bracing itself to catch up with the global trends in banking – in the matter of up gradation of

service quality standards, provision of multiple delivery channels, newer innovations in products and services and provision of financial services beyond the traditional boundaries of banking. Whilst pursuing these endeavors, Indian banking continues to readjust itself to the demands and compulsions of evolving global prudential standards. In this journey, the banking sector is supported by a robust supervisory system.

While reforms in the matter of financials, technology, supervisory system, etc, have been pursued with vigor in the last couple of years and have taken deep roots, reforms in the area of HR have been lagging behind. In the past few years, Indian banking has witnessed radical transformation in the way it operates. This is only the beginning of the journey. For successfully operating in the new banking order, they need to build new capabilities. For pursuing frontline excellence, they need to redefine and readjust the roles and responsibilities of the frontline organization and the staff. The new order will also call for a new organization model at the branch level – all centered around the customer.

Yet another challenge is building leadership capabilities at the top and middle levels, as the new order will call for a new breed of leaders. Retraining and re-skilling in tune with the new requirements would also have to be afforded prime place in the organisations' agenda.

In tune with the paradigm shift in Indian banking, the HR function in the banks has to extricate itself from the mode in which it found itself over the last four to five decades. As the market has changed, the customer too has changed, customer expectations have taken new forms, and people policies also have to change, as it is the people who will be the key differentiators in the new era. Together with financial capital and technology capital, human capital would contribute to the capabilities of the banking organizations to adjust to the new banking order.

Public sector banks are rapidly taking several steps to adequately capitalize themselves in order to meet the Basel II norms and improve their financial health, but the time has come to focus closer attention on the 'HR Capital Adequacy' in individual banks. Though not yet operationally defined, a high level of people competence, effective HR systems resulting in a healthier bottom line is certainly an indicator of high level of HR capital adequacy which PSBs need to achieve.

The agenda for HR reforms is mammoth. Setting in motion these reforms brooks no delay. For all this to happen, the HR function would need to be accorded strategic focus and leadership.

This strategic role can be played by the board and CEO. With HR occupying a place in the top management agenda, it will have the benefit of strategic direction from the key policy makers. This will in turn enable HR functions to drive the organizational transformation initiatives. Yet another challenge is to address the issue of professionalization of the HR function.

In tune with the times, the function has to graduate from being merely an administrative and establishment function to being a developmental function. The strategic role played by the board and CEO with regard to HR functions will help speed up the transformation of this into a developmental function.

Having readjusted itself with the enormous challenges in operational and technology areas, Indian banking will be doubly blessed in its journey towards global banking, when it takes on the people challenges, with all seriousness and urgency. Leaders in Banks can take a cue from the prescription provided by C K Prahalad. He enunciates the factors which make an organization world class: An optimism to be world class, imagination, strong leadership, entrepreneurship, new and indigenous organization models, technology and adaptation of technology, accountability and transparency in performance, and recognition of resistance to change and managing the same.

Assessing the significance of human resource in banking industry and realizing the need of moving HR practices from the periphery to the centre for transformation of an Indian Banks the next chapter of the thesis provides an insight into the literature of what human resource management means. It further discusses one of the most important components of Human Resource Management Practices that is the Performance Appraisal of employees. It documents the entire evolution of the concept along with the developments made on practitioners and academician's front.

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Appendix-1

Bank-wise and category-wise employees of Scheduled Commercial Banks – 2010 and 2011

| Bank Name                     | Officers |        | Clerks |        | Sub-staff |        | Total  |        |
|-------------------------------|----------|--------|--------|--------|-----------|--------|--------|--------|
|                               | 2010     | 2011   | 2010   | 2011   | 2010      | 2011   | 2010   | 2011   |
|                               | (1)      | (2)    | (3)    | (4)    | (5)       | (6)    | (7)    | (8)    |
| Total of SBI & its Associates | 94594    | 102990 | 117023 | 127335 | 54988     | 52128  | 266605 | 282453 |
| Nationalised Banks            |          |        |        |        |           |        |        |        |
| Total of Nationalised Banks   | 194529   | 200376 | 180994 | 179573 | 97518     | 95133  | 473041 | 475082 |
| Total of Public Sector Banks  | 289123   | 303366 | 298017 | 306908 | 152506    | 147261 | 739646 | 757535 |
|                               |          |        |        |        |           |        |        |        |

| Bank Name                               | Officers |        | Clerks |        | Sub-staff |        | Total  |         |
|---|----------|--------|--------|--------|-----------|--------|--------|---------|
|   | 2010     | 2011   | 2010   | 2011   | 2010      | 2011   | 2010   | 2011    |
|   | (1)      | (2)    | (3)    | (4)    | (5)       | (6)    | (7)    | (8)     |
| Total of Old Private Sector Banks       | 28406    | 29035  | 19017  | 18397  | 7629      | 7643   | 55052  | 55075   |
| New Private Sector Banks                |          |        |        |        |           |        |        |         |
| Total of New Private Sector Banks       | 126866   | 163088 | 196    | 197    | 406       | 319    | 127468 | 163604  |
| Total of Private Sector Banks           | 155272   | 192123 | 19213  | 18594  | 8035      | 7962   | 182520 | 218679  |
| Foreign Banks                           |          |        |        |        |           |        |        |         |
| Total of Foreign Banks                  | 26174    | 26100  | 1406   | 1412   | 454       | 457    | 28034  | 27969   |
| Total of All Scheduled Commercial Banks | 470569   | 521589 | 318636 | 326914 | 160995    | 155680 | 950200 | 1004183 |

Source : Indian Banks' Association, 14.11.2011

## Appendix-2

### Salient Features of the Managerial Autonomy Package for PSBs Announced by the Government

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- Autonomy now given to PSB banks to operate in new business areas and undertake business rationalization, i.e., opening of new vistas in business, closing of unviable business units, setting shops overseas in sync with bank's overall business strategy. This is indeed a market centric step and would certainly go a long way in bringing greater organizational maturity to banks in handling issues of business management and corporate governance. It would also help them reposition their organizations in different market niches according to their core competencies.
  - Now banks can formulate their own HR policies in recruitment, staffing pattern, mobility, promotion, discipline rules etc, specific to their organizational needs. PSU banks can thus leverage HR for business growth and design innovative policies for people development.
  - Strong banks have further been given autonomy in deciding the number of general managers as per their organizational requirements. This is a right step for scientific design of the 'span of control' and would enable PSU banks to create a right mix in the top management team.
  - Strong PSU banks can also offer differential pay packages, within the overall grades as decided under the wage settlement at industry level, to genuine high performers. It would instill a culture of performance-linked pay and would be a strong motivation for high achievers.
  - Removal of the cap on staff welfare spends made by banks is yet another avenue which banks can explore in designing the right mix of the overall employee benefits package which can have a tremendous impact on employee motivation and retention.