CHAPTER - I

INTRODUCTION
This national level study has been undertaken keeping in mind the sweeping changes taking place in Indian banking industry. This study basically examines the various aspects of personnel policies pertaining to officers of Public Sector and Private Sector banks. More specifically, the study covers the officers belonging to a wide range of age groups and analyses the different aspects of employee motivation in banks. The study is of an All-India nature covering various states from north, south, east and west. Further, the study attempts a comparative analysis of personnel policies and practices and employee motivation in public sector banks and leading private sector banks.

The time is appropriate for conducting such a study; as reforms have set in motion a fierce competition between public sector banks, private banks, foreign banks and numerous Non-banking Financial Companies. It is a situation of "perform or perish." A bank's performance or survival will depend on its workforce particularly its officers. There is an urgent problem of talented officers going over to the private banks and financial companies. The reforms have provided the best opportunity for the private banks to display their hidden talent. During the last five years the private banks have shown extremely good results in practically all the areas of banking. Hence a study inquiring into - "What ails the public sector banks?" - has become necessary.

If efforts, it is argued, are not made to identify the problems of officers of public sector banks and corrective steps are not taken at the earliest, many more
efficient and competent officers are likely to leave public sector banks. This study, in this context, may serve as a feedback to the public sector banks and provide useful tips to solve some of the burning problems found in the area of personnel administration and employee motivation. The results of the study may help the subsequent researches also to carry out further research in diverse areas. The study analyses the internal and external bank environment and various forces and factors that affect employee motivation.

IMPORTANCE OF HUMAN RESOURCES

Human resources are the greatest assets on earth. A family, is only as strong as it's members, an organization is only as strong as it's employees, and a nation is only as strong as its people. It can not be stronger than the strength of its own people. If Japan, for example, is stronger than India, it is because the average Japanese citizen is stronger or more productive than the average Indian. In the words of Management Expert Drucker, "Financial and Material resources depreciate over a period of time but Human Resources will always appreciate provided they are properly trained and motivated". 1

The progress, growth or development of any type of resources is not a matter of mere luck or accident. There is a planned and conscious effort behind it as in the
case of one who prepares oneself for the Olympic Tournament with years of hard work, training, coaching and practice. Further, different types of resources become meaningful and valuable only when they are utilized or invested productively with positive goals. This is more so in the case of human resources with particular reference to India that is over populated. It is only when the members of a family, employees of an organization and the citizens of a nation and their rulers and managers are so motivated as to realise their hidden potentialities in full measure, there will be a strong and prosperous family, organization and nation.

It is motivation that gives meaning, value and purpose to human life and more particularly to our time, energy and potentialities. Without proper motivation, our life can be compared to a ship without any destination. It will be at the mercy of the waves and the winds. Hence it is the responsibility of everyone in the society to nurture and motivate the children or people under their care so that each one can realise his/her potentials and reach self fulfillment, thereby paving the way towards a better family, better organization and of course a better nation. The success of parents, teachers, managers and leaders depends on how far they can motivate the people under their care in realizing their hidden potentialities.

However, today in practically every walk of life, people are complaining about human motivation. Parents are not satisfied with the motivation of their children; teachers are unhappy with the lack of interest among the students, leaders are demoralised by the lack of enthusiasm among their followers and the employers are
bitter about the lack of morale and motivation among the employees. It appears as if the age-old theories and methods of motivation have become ineffective and out of date. 2

The problem of motivation is an age-old problem. It is a complex problem. It has kept the researchers quite preoccupied and busy throughout. With the fast changing world and the fierce competition that is prevalent today in every field of life, Motivation has taken the centre stage and it is the priority number one. Human Resource Management (HRM) has thus become the most important function for every organization as the key to human motivation and development.

In the context of banking industry which is a labour-intensive industry having highly skilled and qualified employees, the importance of human resources in general and the question of motivation in particular assumes great significance. Accordingly, this study will concentrate on "Employee-Motivation in Banks with reference to Officers of the Public Sector and Private Sector Banks." In order to have a proper understanding of the problem of motivation in banks, it is necessary to have a peep into the history, growth and development of Banking Industry in India during the last 50 years.
HISTORY AND BACKGROUND OF BANKING INDUSTRY IN INDIA

It is a known fact that man's behavior is influenced by the surroundings i.e. environmental factors, work environment, work culture, organizational climate, immediate environment, national as well as global environment. The history, tradition, conventions, rules, procedures and policies also affect the human behavior. Hence it is necessary to have a glance at the growth and evolution of Banking Industry in India.

The banks do not function in isolation of the overall environmental forces. In fact these forces influence the behavioral pattern of their employees and affect their motivation. Man is a social being and therefore affected and influenced by the people, and the forces around him both inside and outside the work place. The pace and pattern of growth witnessed by the Indian banking industry over the past few decades has no parallel anywhere in the world. With the phenomenal growth of banking industry in India, its problems have also grown, particularly human problems, and specifically, employee-motivation problem. In order to understand this problem in its right perspective, it is necessary to review the growth and performance of banking industry during the last fifty years which is characterized by many landmark developments. An objective review will not only help us in understanding the present status of the industry but will also facilitate in preparing necessary plans for meeting the future challenges most effectively.
The evolution and growth of banking industry in India could be analysed under the following four phases:

1. Pre - Nationalization phase i.e. before July 1969
4. Post - Nationalization phase - III from 1991 onwards

Pre - Nationalisation phase:

This phase also covers the pre-independence era. During this phase, the banking industry was under private ownership and the banks did not face any competition from the moneylenders. Profit was the sole motive of bank management and lending was totally security based confined to a few business groups. Since the degree of urbanization and industrialization was very low, these banks operated from metro/urban cities with limited branches and geographical spread. The total number of bank offices in 1935 was only 946. Hence banking industry before nationalization had a limited coverage and lacked developmental and social perspective.

In order to have balanced growth of the banking industry and realising the developmental role the banks should play in any economy, the Hilton Young Commission recommended setting up of the Reserve Bank of India. Accordingly, the Reserve Bank of India (RBI) came into existence in 1935 with the role of building a
sound and adequate banking and credit structure in the country. This was the first landmark development in the annals of Indian banking industry. 4

The passing of Banking Companies Act 1949 (later renamed as Banking Regulation Act) strengthened the hands of the RBI in carrying out banking reforms which consisted of restructuring of the entire banking industry. The total number of banks was brought down from 640 in 1947 to 389 in 1957. 5 The Reserve Bank of India performs the role of the Central Bank of the Country, having power to regulate and supervise the banks as the Government's bank.

The mid-fifties also saw the Imperial Bank of India being renamed as the State Bank of India. Besides, a few apex financial institutions were also set up during this period to provide long term finance to industries. This was the beginning of state control on the financial system. Though planned economic growth was embarked through Five Year Plans, throughout this phase, yet the banking industry could not be roped into play the developmental/social role.

Social control:

The Government brought the banking sector under social control in 1967, with the specific objectives of inducing more professionalization while constituting the board of directors, controlling the credit extended by banks, increasing further the powers of RBI and setting up the apex level management Institute to cater to the
training needs of banks for skill development, viz., National Institute of Bank Management (NIBM).

The Government further set up a national credit council to assess fully, the credit requirements of various sectors of the economy, especially agriculture, SSI, exports and weaker sections, which later, came to be known as priority sectors. The national credit council recommended an Area Approach that culminated in the 'Lead Bank Scheme and Service Area Approach.' It was believed that by allocating different areas (districts) to various banks by persuading to lend more in the allotted areas, banks would bring about the desired results.

However, despite social control, adoption of area approach or vesting the RBI with more powers, the desired objectives could not be achieved. The banking scene before nationalization was: there were only 8262 bank branches in the country serving a population of 64,000 per branch. The share of rural branches was only 22 per cent. In short, agriculture and rural economy continued to remain outside the service area of banks. 6

Nationalization of 14 major banks:

In order to achieve the national objectives and priorities, 14 large Commercial banks having deposits of Rs.50 crores and above were nationalised on July 19, 1969. The main objectives of bank nationalisation were widening the branch network of
banks in unbanked or underbanked areas with larger accent on semi-urban and rural centres. This measure, it was hoped, would help in mopping up savings potential of economy through bank deposits, in a considerable measure, reorienting credit flows in such a way that it goes to agriculture, SSI and other priority/neglected areas.


It was an era of growth and diversification. There was a sudden shift from class banking to mass banking. The number of branches of commercial banks increased substantially, i.e. from 8,262 in June 1969 to 59,815 in June 1990. As a result average population served per branch has come down notably from 64,000 to 14,000 in 1990. In rural areas the average number of villages served by a rural/semi-urban branch has come down from 300 in 1969 to 20 in 1989.7 The aggregate deposits recorded a sharp increase from Rs.4646 crores in June 1969 to Rs.4,35,349 crores in May 1996. Bank credit also rose spectacularly from Rs.3,579 crores in June 1969 to Rs.2,51,646 crores in May 1996. 8

Apart from meeting the developmental needs of the country, the commercial banks have also contributed to the other aspects of development process by increasing their investments in various government securities. Indian banking industry has witnessed an important landmark in the area of social banking by providing credit to
small businesses, weaker sections etc. The share of bank credit to agricultural credit in the total institutional credit stood at 58.2 percent. The public sector banks have also brought about certain innovations that added new qualitative dimensions to the rural economy. In 1974, a new kind of financial institution viz. The Regional Rural bank (RRB) was created to serve the rural areas.


The success of the nationalization experiment of banks encouraged the government to nationalize another 6 banks in the year 1980, taking the total number of nationalized banks to 20. This was an era of consolidation. The rapid branch expansion was followed by steep increase in the volume of business handled by each branch made the banking industry a high-volume-high-turn over industry where 80 percent work pertains to daily transactions and their processing. The manpower employed in the banks could not cope with the workload due to ineffective work management and growing culture of work avoidance. This resulted in poor customer service, increasing arrears in house keeping, declining quality of credit administration, rising incidents of frauds, large number of branches making losses and showing signs of stagnancy.
The price paid by the industry was too heavy in terms of the continued pressure on profitability, deteriorating customer service and poor house keeping, increasing share of non performing advances in their credit portfolios, over unionization etc. These problems assumed larger proportions around mid eighties when Reserve Bank of India took a serious note of it and initiated several policy measures that once again changed the course of Indian banking. As per the Government policy, a large share of bank resources was required to be invested in low yielding assets like government securities, cash and bank balances with the RBI and loan assets created by lending to preferred sectors of economy at concessional rates. This curtailed the income generation capacity of banks.

Due to Loan Melas (mass loaning in priority sectors) in order to fulfill the given targets, the quality of assets could not be maintained hence there was a rising incidence of overdues which effectively increased the element of subsidy. The banking industry while playing a developmental role for the economy, did not pay enough attention to its own development in terms of adopting new management practices, new systems and procedures, introduction of modern technology and human resource development. On account of this, the industry could not cope with the changing environment that threw up new threats, challenges, and opportunities. Besides, since the banking industry operated within the administered interest rate structure, there was no element of competition within the banks. This also affected the managerial capabilities and innovativeness.
The Reserve Bank of India took a serious note of the deteriorating performance of banking industry, especially the public sector banks and initiated several policy measures which were directed at achieving the consolidation of the gains of nationalization. Hence there was a shift from expansion to consolidation. Restrictions were put on opening of new branches and process of recruitment in banks. A two-year operational plan was introduced to monitor the performance of banks in various functional areas. This was a major development that helped in arresting the deteriorating trend.

Post - Nationalization phase – III: Era of liberalization (since 1991)

The landmark development of this phase was the implementation of financial reforms recommended by Narasimham Committee. To appreciate the essence of financial reforms, it is necessary to understand briefly the state of banking system on the eve of introducing the financial reforms. Public sector banks that were strongly influenced by socialistic ideals dominated the banking system. The thrust was on priority sector lending, branch proliferation staff expansion, indifferent accounting policies, less focus on loan recoveries - all under the regime of fixed interest rates. The public sector banks were perennially in the red and warped accounting policies camouflaged the true picture of profits or rather losses. Banks were undercapitalised and a high proportion of their assets were non performing (NPAs) in nature.
Financial Reforms:

The Narasimham Committee report by introducing rejuvenating features formed the basis for the Reforms Package. It placed great emphasis on the steps needed to improve the financial health of Indian banks and make them efficient, market-oriented, vibrant, and globally competitive.11

Emergence of rejuvenating features like accounting practices and procedures of international standards, capital adequacy norms and restructuring the entry of private sector and foreign banks, asset classification, provisioning of bad debts, investment arrangement etc. Hence financial sector reforms came as a breath of fresh air as they were revolutionary and stood as an antithesis to nationalization. In short, the thrust was four-fold:

1. Deregulation
2. Creating competitive environment
3. Cleaning up the balance sheets of banks
4. The attainment international banking norms.12

The reform package was implemented step by step as it was not feasible to change the facade of banking at one shot. For example, Interest rates were deregulated on both the deposits and lending sides over a period of time. Private banks were allowed to enter the industry and their performance so far has been commendable.
Five public sector banks, namely State Bank of India, Bank of India, Bank of Baroda, Corporation Bank and Oriental Bank of Commerce raised money from the capital market. Banks received support from the union budget to attain their capital adequacy norms and nearly Rs.11,300 crores were inducted into the system. Banks were forced to follow prudential norms of accounting and provisioning which made their balance sheets look much healthier. All public sector banks met the capital adequacy norms of 4% by 1993 and are to achieve the 8% mark by 1995-96. Banks were allowed to close down unviable branches to improve their overall working conditions, and for the first time merger between two public sector banks, new Bank of India with Punjab National Bank was witnessed. Further diversification started in Bank activity such as in-roads into leasing, hire-purchase, setting up of mutual funds, development of Commercial paper and certificate of Deposit markets.

Financial reforms have shown both qualitative and quantitative enhancement in the last 4 to 5 years. Deposits grew at a compound rate of 19.1% in this period from 1991-92 to 1994-95, which was higher than the 17% growth witnessed in the preceding four years. Growth in credit remained almost unchanged being marginally lower at 16.1% during the reforms phase compared to 16.4% in the preceding period. This can be attributed to two years of low growth in credit due to a credit squeeze in 1991-92 and changing bank preferences for investments in government securities in 1993-94.
However, the banking system was subjected to turbulence during the period 1991-92 and 1993-94. Public sector banks had to make high provisions for their substandard, doubtful and loss assets to the extent of Rs.4737 crores in 1991-92, Rs.6429 crores in 1992-93, Rs.8045 in 1993-94 and Rs.4548 crores in 1994-95.

The impact of these provisions was reflected in their balance sheets as their losses swelled to Rs.3368 crores in 1992-93 and Rs.4423 crores in 1993-94. However in 1994-95 the public sector banks posted a profit of Rs.1117 crores. But in the year 1995-96, the Indian Bank alone showed a staggering loss of Rs.1336 crores which has completely wiped out its networth. Further Punjab National Bank has also shown a loss for the first time. It is a matter of great concern that the Non-Performing assets are at over 20% that should be reduced to below 10%. Though the response of Indian banking to reforms is positive, the impact and experiences with reforms were varying in various groups of banks.

In respect of public sector banks, profitability and productivity have assumed centre stage in their programmes and priorities along with added focus on priority sector lending and financing Poverty Alleviation Programmes. For the older private sector banks, the reforms provided an opportunity to unleash their latent talents and potentialities as evidenced in their performance in the post reform period. For the foreign banks, the reforms facilitated a big foray into personal banking and trade and project finance which normally receive a boost consequent to the liberalization of trade and entry and expansion norms in business and finance.
THE CHALLENGES BEFORE THE INDIAN BANKS:

In order to survive in the emerging competitive market, banks have to focus attention on the three fundamental concerns, namely, productivity, efficiency and profitability. A variety of factors do contribute to the performance effectiveness of a bank. As such before looking at productivity in a total perspective, it is necessary to consider a few aspects having partial influence on the same. Some of these aspects are:

1. Structural productivity: The structural rigidities of the past could prove to be hindering factors for quick response to customers in a bank. The organizational structure has to be reoriented in such a way as to facilitate effective decision-making and control.

2. Functional Productivity: In the case of banks, a few functions like personnel, funds management etc are carried out in routine fashion. The effectiveness of a particular function depends on its results.

3. Managerial Productivity: The role of a manager is essentially one of producing synergy in the team with which he works. Manager determines the productivity level of that position.
4. Individual productivity: The underlying principle here is whether an individual employee is a "productive" input for the organization in terms of his job performance and outputs. The elements that are basic to individual productivity are: job knowledge, performance goals, rewards and feedback. HRD mechanisms in general and the training, performance appraisal and reward systems in particular pave the way to obtain better productivity at the individual level.

5. Technological Productivity: An organization not keeping abreast with the technological progress in its core activity will soon become obsolescent and lose out in the market over a period of time especially when exposed to competition. However, it should be remembered that technological productivity would depend on the organization and the individual using it.

Despite the variety of input factors in productivity considerations, staff would remain the critical factor whose individual efficiency and collective effectiveness would have significant impact on all output factors. As such despite the marketing orientation of current competitive times of putting "customers first" "employees first" approach may be one that would lead to higher performance and productivity levels in banks or similar service organizations. If a bank takes care of its employees through sincere HRD efforts they will, in turn, look after the customers well and this should result in significant productivity and profitability gains for the organization as a whole.
THE PROBLEM OF EMPLOYEE MOTIVATION IN BANKS:

The two most important parameters of performance are: productivity and customer satisfaction. Both these depend on attitudes and procedures in banks. The largest and the most significant course of public dissatisfaction with the working of banks arises from delays in clearing, delays in collection and remittance of outstation cheques and bills, indifferent customer service, undue delays in completion of statements of accounts and pass books etc.

Productivity in banking and customer service are two sides of the same coin. Productivity in itself is meaningless; and productivity with service alone will bring that satisfaction, which it is said, the customer in India does not get.16

In Europe, before the war, production was looked upon as the contribution of a well-paid secure worker. After the war in 1950’s security and high wages arrived. What was the result? A lot of strikes and lack of worker interest, a demand for still more pay and less work. Then came the answer of incentives. Till they also reached a stage where men were drawing high wage and overtime incentives. But men seemed to lose interest in work progressively, in most countries, except perhaps in Japan and West Germany. Good pay high security, well-treated workman and plenty of leisure led to absenteeism. Incentives did not work. In India, we may be treading the same path; high wages, security and incentives to draw more out of a man. The desire for leisure is endemic in our society.17
According to P. L. Tandon, a renowned banker, we need a new set of attitudes on the part of management. Industrial harmony comes out of conflict and dissonance. It needs ability and skill to create synthesis out of thesis and counter thesis. Man grows out of conflict and struggle, so does an organization. An organization that has no capacity to face conflict is inert and dead. The problems should be brought to surface and not swept under the carpet. They should be faced boldly and squarely but harmonized. There will be conflicts but conflict resolved not avoided. Though there is no regular or comprehensive assessment of bank services, there is a general consensus that the service presently rendered by banks, needs and is capable of vast improvement. Bank users criticize and bankers themselves concede that customer service rendered by banks leaves much to be desired and in certain respects, has indeed reached very low levels both absolutely and in comparison with the past.18

According to the Varadhachary Committee report on Customer service in banks, all this can be ascribed to many reasons. May be enormous branch expansion programme undertaken by banks along with the ever widening range of their activities and responsibilities, particularly after nationalization has weakened the structure fabric of the organizations. Simultaneously public expectations have been constantly, often justifiably growing and with the public awareness of dissatisfaction over the service rendered by banks has assumed growing expression. The near obsolescence of reward and punishment system, increasing security available to employees, pressure from powerful employee organizations and managerial deficiencies have all had their impact on the quality of service rendered. In a much broader sense, the
atmosphere of indifference and casualness prevalent in the society could not but have had repercussions in banks. Hence it could be said that bank services need considerable improvement on an emergent basis. And the time has come for banks to look inward to find out what is the nature and quality of the products they sell, what is the product demanded by the customers and how to go about matching the two.19

The report further states that the four most important and interdependent factors which influence bank performance are:

1) Demands on and expectations from banks.
2) Quality and job knowledge of bank personnel.
3) Attitudes and motivation of bank employees and
4) Back-up systems, procedures, policies and practices.

Among all the four important factors, the key factor is attitudes and motivation of bank employees. Perhaps, the single most significant factor having vital bearing on the quality of bank service is employee motivation which is influenced by and, in turn, itself influences employee attitudes. It is quite understandable that, in a service industry, motivation acquires crucial importance. If motivation could be said to be that innerforce which propels an arson and directs his behavior towards or away from particular goals, bank employees could be hardly said to be so motivated in rendering customer service. In all fairness, it must be stated that banks with their staff scattered widely at thousands of locations, with a small complement of staff at most of the
locations, have genuine problems in employee motivation. Remoteness from controlling office creates a crisis of identity because it tends to dilute the sense of belonging. In addition it also creates communication gaps. Over and above, such emotional isolation, there is also problem of lack of integration with society, which as been at least until recently, a feature of Indian banking.

**REFORMS AND HUMAN RESOURCES:**

As per the study undertaken by the study group of the IBA committee of economists for Indian banks, there is a lot of ground to be covered in respect of human resource management when compared to banks in South East Asian countries like: Taiwan, South Korea and Indonesia where the state owned banks function. There is sufficient operational freedom given to these banks. Employees unions are prevalent in all these countries but their role is limited to negotiations of wages and other general matters concerning the workers. Unions do not have any role in placements, or transfers of employees or officers. Unlike in India, there are no instances where the unions have a say in the operational matters. In Indonesia, each bank has its own separate recruitment policy, compensation mechanism, placement system. In Taiwan bank employees of the State owned banks come from civil service. Banks are required to obtain approval for their operational budget every year from the government. But thereafter bank executives do not face any interference or restrictions in the conduct of operations. Right from the lower level staff to the top
most executive everyone is eligible for pay rise and bonuses as per the capacity of institutions. Even among the state owned banks, the salary structure varies from one bank to another depending upon its strength and business potential. Barring ownership of the government and laying down general policy, there is fierce competition even among state owned banks, not in just business but various other factors governing the business. Strikes and industrial unrest are a rarity in the banking industry. Work culture and discipline are found to be of high order. Hierarchy is respected and there is clear distinction between the officers and award staff cadres. Working hours are longer and there is no interruption in service due to staggered duty hours. Even during lunch break customers are attended without putting them into any inconvenience.

The effects of the reforms and deregulation of banking industry and its severe fall out on human resource management of banks is felt in all the countries. There is an exodus of good, talented and effective peoples joining the rival financial institutions or newly set up private banks. Hence attracting good and talented people and retaining them has become a great challenge for banks today. The problem of employee motivation in banks has to be seen against this background.
REFERENCES


4. Ibid p.4.

5. Ibid p.4.

6. Ibid p.5.

7. Ibid p.5.


11. Ibid p.106.

12. Ibid p.106.


20. Ibid p.5.