CHAPTER--- 1st

INTRODUCTION
AND
RESEARCH METHODOLOGY
"Take away my people, but leave my factories and soon grass will grow on the factory floors. Take away my factories, but leave my people and soon we will have a new and better factory"

Andrew Carnegie

INTRODUCTION:- The primary goal of human resource management in any organization is to facilitate organizational performance. One of the most effective ways of enhancing organizational performance is to improve productivity—a subjective term which may mean different things to different people. Management of human resource is an all-pervasive function which is to be performed effectively, irrespective of the functional or operational areas. Research has proved that Human Resource Management Practices (HRMP) like induction, recruitment and selection, training and development, compensation, employee participation and empowerment, information sharing, egalitarianism, employment security, performance appraisal methods, promotion and career-planning, job definition etc. have immense effects on the performance of organizations (Walker, 1992, Cappeli, 1994, Pfeffer, 1994, 1998, Huselid 1995, 1999, McDuffie, 1995, Delery and Doty, 1996).

Human resource issues are a double-edged sword as these issues can be used as an opportunity for improvement or a chance to gain a competitive advantage. In the negative sense these may be the problems or the shortcomings which must be resolved. As such, it is the management of human resources which has resulted in making or marring the organizations, economies and countries as well (Walker, 1992, Cappeli 1994, Pfeffer, 1994).

There is a growing consensus among human resource professionals and experts that properly configured human resource policies of an organization can provide a direct and economically significant
contribution to firm’s performance (Cappeli, and Crocker Hefter 1994). Every industry/organization has some distinctive human resource practices. It is this human resource that helps to create unique competencies that differentiate products and services and generate competitiveness. Many studies throughout the world have shown that positive correlation exists between employment security, selection and training activities, investment in training, information-sharing, employee participation and empowerment, egalitarianism, cross-utilisation and cross-training, performance appraisal systems, incentive compensation systems, promotion from within, team-based production systems and other positive human resource management practices on the one hand and performance of the organizations on the other (Gerhart and Milkovich 1992, Wagner 1992, Youndt 1996).

The service sector of India’s economy is growing very fast. Its proportion in the composition of GDP of the country over the years has increased to 61%. Conversely the proportion of primary and secondary sectors has gone down to 24% and 15% respectively as per the economic survey 2006-2007(Figure 1.1).

Figure 1.1

Trends in Service Sector’s Share in GDP

Source: RBI Annual Report 2005-06
Banking industry, as such, is the single most important constituent of the service sector which is very crucial for the economic development of any country. Indian banking industry is passing through a very critical phase and is confronted with very serious challenges both from within and outside. Opening up of economy, entry of foreign banks, establishment of new-generation private-sector banks, unprecedented pace of automation, global competition, communication revolution, demand for improved customer services, preparation for the implementation of BASEL II Norms in the year 2009, disinvestment, increasing NPAs, upgradation of quality of services, fluctuating rates of interest, incurring of heavy losses, marketing a wide range of products and product lines, restructuring and de-structuring of organizations, absorptions and amalgamations etc. All these challenges in economic, social, cultural, technological, psychological environment have important implications on the HRM practices being followed in banking industry as well as on the performance of banks. All the HRM practices like induction, recruitment and selection, training and development, performance appraisal, compensation and rewards, promotions and empowerment, sharing of decision making power, job security and security of monetary and non-monetary benefits, welfare measures and separation in the form of retrenchment, lay-offs, VRS, golden handshake and the like have come under tremendous pressure. Consequently, the performance of the banking industry has been affected very seriously as far as profitability, customer retention, business turn-over, retention of products and product lines, market share, satisfactory customer services and return on investment are concerned.
SIGNIFICANCE OF THE STUDY

Although a lot of research has been conducted on different HRM Practices severally or collectively and also on the performance of different organizations and industries, not much research has been conducted to find out the correlation between HRM Practices and the performance of the organizations (Wagner 1994, Gerhat and Milkvoich 1992). Most of the such studies have been conducted in the United States of America and the United Kingdom (Pfeffer J, 1994, 1998, Huselid Mark J, 1995, 1999, Delery and Dotty, 1996, Guest, 1997, Purcell et al., 2003) though, research on this important issue is picking up in various parts of the globe (Zabid and Anantharaman, 1999, Anderson, Cooper and Zhu, 2007, Bae, Chen, Wan, Lawler and Walumbwa, 2003). In India, some studies have been conducted encompassing various sectors of the economy (Singh, 2001, 2004, Budhwar, 2006). However, the studies are either longitudinal or conducted particularly with reference to manufacturing sector. Not many such service sector-specific studies have been conducted in India. Studies vis-à-vis financial sector in general and banking industry in particular are hardly found. To fill this vital gap in the existing research, the present study has been conducted to explore the nature and degree of correlation between HRM Practices and performance of the banking industry in India. Banking industry is probably the most important industry in the service sector and is crucial because of its effects on different sections of our society including depositors, shareholders, employees and the general public. Banking industry is the backbone of any financial system as well as economic development of any modern society. Keeping in view the size and scope of the banking industry and the limited resources at the disposal of the individual
scholar, the present study covers some selected banks from public as well as private sector in India. Two banks each were selected from the public sector and the private sector. From the public sector one each from SBI group and the nationalized group was selected. State Bank of India, being the largest bank in the world in terms of the number of branches and the largest public sector bank in India in terms of deposits, branches, employees and advances, one of the top one hundred banks of the world and one among the top twenty banks of Asia. The Punjab National Bank, being the largest nationalized bank and one of the oldest banks in India, operating for more than a century now, with strong fundamentals, thought of and pioneered new concepts, encouraged innovations, reshaped management systems, merging within its fold six private sector banks and floated subsidiaries to maximize business opportunities. The Jammu and Kashmir Bank Ltd., is one of the leading private sector commercial banks so far as rate of growth of deposits, profitability and business turnover are concerned. Having the unique distinction of being bankers to the State Government (J&K), the Bank has a wide network of branches and ATMs throughout the country, particularly catering to the needs of the people living in the State of J&K, with a long history at its back, State Government being the major shareholder and the Bank is live on the RTGS system of RBI. The second bank from the private sector chosen for the study is the HDFC Bank— a new-generation private sector Bank which has achieved a place of honour and prestige by receiving the bank deposits to the tune of Rs. 55,000 crore in a time period of just over a decade, equipped with state-of-the-art technology and a vision to become a world class Bank.
OBJECTIVES OF THE STUDY

The present study has been undertaken to analyse various HRM Practices and organizational performance of banks with the main emphasis on studying the correlation between HRM Practices and POP in the Indian Banking Industry in general and in the State of Jammu and Kashmir in particular. Precisely, the study has been conducted with the following objectives in view:

❖ To examine the existing HRM Practices in the banking industry in India;
❖ To study the organizational performance of the banking industry in India;
❖ To analyse the relationship between HRM Practices and Organisational Performance of the Banks under study;
❖ To suggest, on the basis of the study results, measures for improvement of HRM Practices and the performance of the banking industry in India.

HYPOTHESES

To give the proper direction to the study, a set of following working hypotheses has been developed:

❖ The degree of correlation between HRM Practices and POP differs significantly within different sectors in the banking industry as well as within different banks in the same sector;
❖ A significant conceptual difference exists in HRM Practices in the banks under study;
❖ HRM Practices vary on the inter-sector as well as intra-sector classification of banking organizations under study;
❖ Perceived organizational performance varies on the inter-sector as well as intra-sector classification of banking organizations.

SCOPE OF THE STUDY
In view of the limited time, resources and database at the disposal of the individual research scholar, the present study has been confined to the banking industry in the state of Jammu and Kashmir. However, the banks selected for the present study, do reasonably represent the Indian banking industry, as the banks so selected have a national character. Since the selected banking organizations operate at the national level, a uniform policy regarding HRM Practices and the techniques/indicators of organizational performance is in vogue.

Table No: 1.1 Profile of sample banking organizations

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of the organization</th>
<th>Yr of Est.</th>
<th>Yr.of Est. in J&amp;K</th>
<th>Number of Branches</th>
<th>Sample for the study</th>
<th>% of each bank in the total sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.</td>
<td>State Bank of India</td>
<td>1921</td>
<td>1948</td>
<td>9177</td>
<td>118</td>
<td>32.20</td>
</tr>
<tr>
<td>02.</td>
<td>Punjab National Bank</td>
<td>1895</td>
<td>1905</td>
<td>4520</td>
<td>70</td>
<td>35.71</td>
</tr>
<tr>
<td>03.</td>
<td>The J &amp; K Bank Ltd.</td>
<td>1938</td>
<td>1938</td>
<td>520</td>
<td>410</td>
<td>20.49</td>
</tr>
<tr>
<td>04.</td>
<td>HDFC Bank</td>
<td>1995</td>
<td>2003</td>
<td>583</td>
<td>03</td>
<td>100.00</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td></td>
<td>150</td>
<td></td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Reports and records of the banking organizations under study

The banking industry has been purposely selected for the present study, as it is perhaps the single largest industry in the organized sector in an industrially and economically backward State of Jammu and Kashmir with a wide network of branches, connecting almost all the areas of the State. Barring the foreign
sector banks, all other sectors of banking industry including public
sector, private sector, RRBs and cooperative banks are operational in
the State.

**Table No. 1:2 Sample Size and Structure**

<table>
<thead>
<tr>
<th>Personal characteristics</th>
<th>Name of the Banking Organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>JKB</td>
</tr>
<tr>
<td>Age in years</td>
<td></td>
</tr>
<tr>
<td>21 to 35</td>
<td>04(5.76)</td>
</tr>
<tr>
<td>35 to 50</td>
<td>46(54.76)</td>
</tr>
<tr>
<td>Above 50</td>
<td>34(40.48)</td>
</tr>
<tr>
<td>Educational qualification</td>
<td></td>
</tr>
<tr>
<td>Graduation</td>
<td>55(65.48)</td>
</tr>
<tr>
<td>P.G</td>
<td>29(34.52)</td>
</tr>
<tr>
<td>Tech/professional</td>
<td>20(23.80)</td>
</tr>
<tr>
<td>Designation</td>
<td>Branch Manager</td>
</tr>
<tr>
<td></td>
<td>Officers higher than Br. Managers</td>
</tr>
<tr>
<td>Experience as Branch manager</td>
<td>Up to 5 years</td>
</tr>
<tr>
<td></td>
<td>5 to 10 years</td>
</tr>
<tr>
<td></td>
<td>More than 10 yrs.</td>
</tr>
</tbody>
</table>

(Figures in brackets denote percentages)

*Source: Field survey through questionnaire*

The study covers the four large banking organizations which are
operational throughout the country. Although the selected banks
fall two each in public sector and private sector, yet each banking
organisation is different in one way or the other from rest of the three
banks. In the public sector, State Bank of India belongs to State Bank
Group, while as the Punjab National Bank belongs to nationalized
banks category. Likewise, in the private sector, the J&K Bank
belongs to old-generation private sector commercial banks while as
HDFC Bank falls under the new-generation private sector
commercial banks category. With the exception of HDFC Bank that
has recently entered into the State, all other banks have a long
history of serving the people of the state, through a vast network of branches, particularly in the retail sector. Table 1:1 provides some background information about the banking organizations under study and justifies the reason for their selection.

ORGANISATION OF THE STUDY
The study has been presented under five broad chapter headings. Chapter I deals with the introduction of the problem, need and significance of the study, objectives and scope of the study, materials and methodology adopted, sample design, hypothetical framework, and instruments and tools of analysis used in the study.

Chapter II deals with the in-depth review of literature on the subject in general and the areas of HRM Practices and organizational performance in various sectors and in various countries around the globe in particular.

Chapter III gives the profile of the four banking organizations under study. This chapter also gives a brief note on the evolution of HRM Practices in the Indian Banking Industry.

The analysis of data, obtaining the results and discussions thereon vis-a-vis HRM Practices, POP and the inter-linkages between the two is the subject matter of Chapter IV.

The last Chapter (Chapter V) deals with summarizing the conclusions arrived, offering suggestions and detailing out policy implications of the study results.

MATERIALS AND METHODOLOGY USED

Research Approach: - The research approach adopted for the study consists of the following:

A comprehensive but critical review of literature on various aspects of HRM Practices and organizational performance in general and analyzing the relationship between the two in particular;
A thorough study of the publications in addition to survey and project reports, documents and records, annual reports and in-house journals of the organizations under study;
Personal discussions with respondents (Branch Heads) about various HRM Practices and POP and the linkages between the two;
Personal interviews with respondents (Branch Managers) through a pre-tested comprehensive questionnaire.

**DATA SOURCES**
The present study is based on the data collected from primary as well as secondary sources. Background information about the sample organizations has been made available from various published and unpublished records, reports and documents of such organizations.
Survey and project reports, research papers and articles published in various journals, magazines and books regarding different aspects of the problem under study have served as a major source of secondary data.
In addition to the personal discussions and deliberations on the subject with the respondents, their responses were collected through a well designed comprehensive questionnaire (Appendix I) that served as the main instrument of primary data. The questionnaire was pre-tested on a number of prospective respondents (Branch Managers) so as to ensure the relevance and consistency of various items and statements in the questionnaire.
The questionnaire consisted of four sections. The first two sections are operative, while as section III elicits information on personal and socio-economic background of the respondents. Section IV has been included to obtain personal observations and suggestions and other critical information that sections I and II could not cover.
INDEPENDENT VARIABLES/HRM PRACTICES

On the basis of extensive review of literature (Delery and Huselid, 1996, Zabid A Rashid and Anantharaman, 1999, Dr Kuldeep Singh, 2001, 2004), and scales developed were used for measuring each of the HRM Practices and POP. Each scale was a Likert type five-point scale, where:

5 = very much true
4 = mostly true
3 = sometimes true and sometimes false
2 = not true most of the time
1 = not true at all

Induction: - Induction was measured by an instrument having five statements. The respondents were asked to indicate whether any formal induction programme was in vogue, its nature, contents and the usefulness of such induction programme.

Hiring and Selection: - It was also measured by an instrument having five statements, asking the respondents to provide their observations as to whether selection procedure in place is scientific, use of employment tests, consideration of desired knowledge, skills, talent and attitudes in the selection process, composition of the selection committees and the attitude of candidates to work in a team.

Training and Development: - It was measured with an instrument having five items, asking the respondents to indicate their perception regarding conducting of formal training programmes, frequency of the training programmes, identifications of training needs and assistance of seniors in the development of juniors.

Employment Security: - This dimension was measured with a 4 point instrument requesting the respondents to indicate their
perception about the security of the employment, chances of dismissal, guarantee of job security and employment cut in case of organisation's economic hardship.

**Job Definition:** - It was measured through an instrument having four items and the respondents were asked to indicate the extent of clarity with which jobs are defined and also the scope provided to an employee to shape the job.

**Compensation:** - Compensation was measured through an instrument having five items and the respondents were asked to indicate the extent to which compensation is linked to performance, the market and the competitors.

**Performance Appraisal:** - It was measured through an instrument having five items, asking the respondents to indicate the extent to which performance is evaluated on the basis of quantifiable results and usage of performance data for improving performance and taking other decision of job rotation, discipline, training and compensation.

**Promotion and Career Planning:** - It was measured with an instrument having five items and the respondents were asked to indicate the extent to which promotion and career planning system is designed and its use as promotion from within and meet the individual and organizational growth needs.

**Employee Participation and Information Sharing:** - It was measured with an instrument having five items and the respondents were asked to indicate the extent to which they are allowed to share the information and influence the decision.

**Value-added Incentives:** - was measured with an instrument having five items and the respondents were asked to indicate the various
monetary and non-monetary amenities and facilities available/provided to them.

**DEPENDENT VARIABLES/ORGANISATIONAL PERFORMANCE**

Dependent variables which have been used in some of the earlier studies (Delaney and Huselid 1996, Harel and Tzafir, 1999, Dr Kuldeep Singh 2001, 2004) were used in this study, measuring the perception of respondents about the organization's performance in relation to its competitors. Each dependent variable was measured on a Likert Type five-point scale where:

1 = worse than others
2 = not good than others
3 = satisfactory than others
4 = good than others
5 = very good than others

The perceptual organizational performance, measured on eight parameters are:

- Quality of products and services provided
- Development of new products and services
- Customer satisfaction
- Market share
- Business per employee
- Profit per employee
- Return on assets
- Return on equity

**DATA ANALYSIS AND TOOLS OF ANALYSIS**

As mentioned earlier, HRM Practices were assessed through the standardized and comprehensive scales developed by many experts (Huselid and Delaney 1996, Dr Kuldeep Singh 2001, 2004).
Respondents were asked to provide responses to the statements on ten different dimensions of HRM Practices. Under each dimension five statements were provided barring employment security and job definition, where only four statements were provided to generate information. The statements required to be answered under each dimension were not put in a sequence but randomized (see Annexure I) in a way that the statements from 1 to 10 represent ten different HRM Practices, repeating again from statements 11 to 20 and from 20 to 30 so on and so forth. Such arrangement of the statements was followed to minimize the subjective and uniform scores of a given respondent across the statements under a particular dimension. The order of statements was followed despite the fact that the researcher had to take extra care to tabulate the scores of each statement under suitable dimensions.

With the help of Likert-type scale, the scores were classified under each of the dimensions to arrive at dimensional score and overall total scores.

Regarding organisational performance, the respondents were asked to answer the single question as to what was their perception about the organization's performance as compared to other organizations during the period of past three years. Various performance dimensions like quality of products and services, development of new products and services, customer satisfaction, market share, business per employee, profit per employee, return on assets and return on equity. Each of these dimensions was measured with the help of five-point Likert-type scale.

All primary and secondary data were quantified, compiled and tabulated to suit the statistical analysis to be followed. As the data
were very huge and un-manageable, they were computer processed with the help of statistical software Minitab Release 13.20. Many statistical calculations in the form of absolute numbers, perceptions, ranks, aggregates, computations have been used objectively to arrive at the dependable conclusions. Descriptive statistics including means and standard deviations were used. In addition to descriptive statistics, statistical tests of 't' and one-way un-stacked ANOVA were used to assess comparability and significance of the results obtained. The technique of correlation was used extensively for explaining the link between HRM Practices and POP. Inter-sector and inter-organisation comparisons have been made to test the hypotheses for organizational and sectoral differences.

SAMPLE DESIGN

As mentioned earlier, the present study has been conducted in four different banking organizations covering two each from public sector and private sector. All the four banking organization are large-scale scheduled commercial banks, having a national presence.

The universe for the present study consists of almost six hundred bank branches operating throughout the state. Multistage sampling technique was used to select a representative sample, which was restricted to 150 Branches, after giving due consideration to the following factors: -

- Ownership of organization (public sector and private sector)
- Nature of organization (organizations within the same sector)
- Geographical divisions and dimensions of the state.
Firstly, the total sample for the study was selected. Subsequently, the composition of the sample was decided on the basis of the number of branches of each bank operating in the state of Jammu and Kashmir. The organisatioal level sample was selected randomly after identifying a particular geographical area, so as to give reasonable representation to all the geographical divisions and dimensions.