CHAPTER 1

1. INTRODUCTION TO THE STUDY

1.1 INTRODUCTION

The concept of Human Resource Management (HRM) evolved as inevitable part of every management and business practices. Though the exact phrases coined by the management professionals in the late 19th century, there was an enough proof that it have been derived from the People/Personnel management concept. HRM gained its momentum after recognition of truth that success of any organizations is built by people not by bricks. In the recent era of competitive environment professionals and business gurus enormously felt the need of the HRM to ensure the organizational success through its people. The success of any Organizations lies in a sound HRM system. However, very few corporate could establish separate autonomous HRM departments, due to either affordability, fear or a lack of understanding of the worth and contribution of HRM activities.

HRM aims to attend the organizational success by creating a competent and motivated workforce. HRM is built on the pillars of rigorous procedural HRM practices includes recruitment and selection, Job analysis and Design, training and development, performance appraisal, career planning system, employee participation and compensation system.
Ulrich (1997) said that to capitalize on new opportunities, HRM systems could be the main source. Sett (2004) argued that the globalization of the South Asian economy has been accompanied by an increasing use of HRM practices.

HRM has stimulated the rigorous debate among the academicians and practitioners. The discussions mainly focus around the identifying the real meaning of HRM, yet there is no generally accepted definition of the concept. The literature suggests a range of definitions; some of these equate Human Resource Management (HRM) with Personnel Management (PEM), while others reflect altogether different concepts. However, the philosophies and practices of the latter concept provide fundamentals for the philosophy and practices of HRM. Personnel Management typically focuses on a series of activities relating to the supply and development of labor to meet the instant and short-term requirements of the organization. The activities of recruitment, selection, rewards, training, compensation and others are observed as separate individual functions. On the other side Human Resource Management aims to incorporate all the personnel functions and create a unified strategy. In addition, it deals with employees as individuals by maintaining their personal files and job related activities, while on the other hand it considers the entire business organization as a central point of analysis.

HRM is an intended and balanced scheme for the management of people functioning in an organization that alone and together puts in the effort for the accomplishment of organizational goals. HRM is a collection of integrated policies, guidelines and procedures with ideological and rational foundations. The main focus of HRM is on four aspects i.e. A particular group of beliefs and
assumptions, strategic thrust notifying choices regarding HRM, fundamental participation of line managers and depends on a set of levers to form employment affiliations (Storey, 1989).

Legge (1995) described HRM as based on hard and soft aspects by distinguishing differences between human resource and material resource. Hard perspective emphasizes business strategies as calculative and quantitative aspects of HR like other economic factors. Story (1987) considered human resource as a factor of production, and their treatment is like that of the variable cost of doing business. Soft perspective by Guest (1987) is the competitive advantage focused approach, in selecting skilled, devoted and a flexible workforce. HR is treated as a distinctive resource that turns factors of production into wealth. Thus the focus is on acquiring long run competitive advantages by effective leadership, proper motivation and effective communication, and by investing in people through training & development.

“HR should be defined not by what it does, but by what it delivers” David Ulrich.

Based on the different philosophies in literature, HRM is defined as: A methodological approach to develop a formal structure in an organization to guarantee proper recruitment & selection, training & development, performance appraisal, career planning system, employee participation, and compensation system for efficient and effective utilization of skilled & motivated human resource to achieve organizational strategic and operational objectives.

Influence of Human Resource Management practices on organizational performance in different developed economies has been a critical
and important area of research. In the past, researchers focused on the effect of Human Resource Management practices on organizational productivity, turnover and financial performance (Choi, 2010). However, in India this remained an ignored area. Sett (2004) is of the view that since the mid 1980s, with the opening of economies in most South Asian countries, the industries underwent qualitative changes, making it imperative for the region that a comprehensive strategic approach to manage people be adopted. HRM in India was adopted in response to the challenges posed by globalization to bring efficiency in the economic and business activities. However, the adoption of HRM is still in its preliminary phase in India. For organizations besides cost reduction, quality enhancement and increasing product functionality, HRM is another core paradigm to acquire competitive advantage.

The world is rapidly changing in all fields of life due to globalization and technological advancements that are causing changes in working procedures of the companies across the world. Active HRM practices can meet the challenges resulting from changes in the world of work and work process engineering, as an integral function can be a major activity towards organizational success. Managing baby boomers and the new generation simultaneously, at different work sites in a dynamic environment is not an easy task. They need special treatment in different ways; some prefer one dimension of benefits while others have different preferences. Therefore, implementation of HRM practices to strengthen an organization by increasing employees’ performance is a tricky but essential venture.

Success in today's competitive market depends on the advantages associated with economies of scale, proper use of technology, access to capital,
creativity and innovation. This is possible when competent human resource with proper attitude, skills and knowledge has been selected on merit, so that HR can work with motivation towards organizational growth. Although in most of the developing countries, the main hindrance of organizational growth and profitability is either no or negligible use of professional HRM practices, but, the struggle is continuing to find the best way to use these practices optimally. India has been focusing on industrial growth for the last few decades. As a result, the organizations from different industries are performing a momentous role in the economic development of the country. Despite their economic importance, different organizations suffer from a variety of structural and institutional weaknesses, which have constrained their ability to take full advantage of rapidly advancing process of globalization and HRM practices.

1.2 HRM MODELS AND FRAMEWORK

Fombrun et al. (1984) at Michigan School precisely sketched HRM concept by saying that the HRM system and the organization structure should be harmonious with the organizational mission and strategy. The HRM cycle consists of different functions, selection (matching HR talent with available positions, or the right candidate for the right job), performance appraisal (evaluation of employees’ performance for improvement), and compensation (rewarding employees with substantial packages) so that they can be retained and development (strengthening employees with modern working skills) was introduced.

Prominent contributors in modern theory and practices of HRM is by Beer et al. (1984) at Harvard School believing that HRM is the concern of the management in general, rather than the personnel function in particular, and in
this era, different forces are demanding a broader, comprehensive and more strategic perspective of human resources in organizations. Different professionals are looking at the long-term perspective of HRM and consider people as strategic assets instead of an expense. The core function of HRM is getting the right people for the right job so that the required output can be achieved by getting work done by the appropriate people at proper motivational packages, including provision of training and development opportunities after performance appraisal. Ulrich and Lake (1990) view the HRM system as the source of organizational potential that allows organizations to learn and take advantage of contemporary opportunities.

Importance of Human Resource Management has been recognized by Pfeffer (1998) in his book “The Human Equation: Building Profits by Putting People First”. The organizations that peruse “High management practices,” produce strong economic returns over a period of time. In support of this argument, he pinpoints different Human Resource Management practices, called Management Practices, as People Centered Strategies (PCS) i.e. proper recruitment and selection, employees training and development, compensation based on merit & performance, and states that PCS are essential sources of competitive advantage that cause higher economic returns. Peffer’s work had no empirical evidence in support of the argument he created. Hence, there arises a need to find empirical evidence to support the relationship between HRM practices and organizational performance.

Whitener (2001) by using hierarchical linear modeling found a significant relationship between HRM practices and employees’ commitment that leads to employees’ performance. Tsui et al. (1997) tested employees
training and development investment, employee commitment & their performance and found significant relationship. Arthur (1992) identified a significant relationship between HRM practices and steel mills performance.

Huselid et al. (1997) discussed two different dimensions to measure HRM effectiveness: Strategic HRM and Technical HRM. The first one (Strategic HRM) focuses on methodology to adopt these practices aligned with organizational strategy and the latter (Technical HRM) means effectively implementing these activities.

These authors, by their studies suggested that proper implementation of HRM practices increased organizational performance manifold. However, linkage amongst HRM practices, employee performance and organizational performance needs to be tested by researchers.

1.3 SIGNIFICANCE AND PHILOSOPHY OF HRM

Human Resource Management, surfaced as a designed and methodical approach in the latter half of the 20th century, while the evolution and origin of HRM can be traced back to the 1970s with the upsurge of human resources accounting theory. Before the accounting theory, human resources used in the production activity were paid equivalent to what and ability to deliver, mental and physical struggle that ultimately strengthened they produced. Their importance and value was not perceived in terms of their skills the financial power of the organization. Human resource accounting theory reformed this ideology and brought fresh thoughts, that the people were the strategic asset of an organization, and they had to be treated in a proper way for enhancing their
motivational level, that would ultimately increase organizational performance. Therefore, on the basis of this approach, Human Resource Management (HRM) reviewed the policies and practices needed to carry out the “people” or the human resource aspect of management position, including selection, job definition, training, performance appraisal, compensation, career planning and encouraging employee participation in decision making.

From another point of view, HRM was defined as a process for the development of abilities and attitude of the individuals leading to personal growth and self-actualization, which enables individuals to contribute towards organizational objectives. The concept of HRM for understanding the needs and hopes of people, in a better way, is required to be developed and strengthened. A Chinese proverb says,

“If you wish to grow something for a season, grow mangoes. If you wish to grow something for a year, grow rice, but if you wish to grow something for a lifetime, develop manpower”

With support from the above theoretical background this research intended to study the role of the universal Human Resource Practices in improving the organizational and employee performance with HR outcome such as Commitment, satisfaction and Turnover intention as mediators.

1.4 BANKING SECTOR- AN OVERVIEW

1.4.1 Introduction

Banks have played a critical role in the economic development of some developed countries such as Japan and Germany and most of the emerging
economies including India. Banks today are important not just from the point of view of economic growth, but also financial stability. In emerging economies, banks are special for three important reasons. First, they take a leading role in developing other financial intermediaries and markets. Second, due to the absence of well-developed equity and bond markets, the corporate sector depends heavily on banks to meet its financing needs. Finally, in emerging markets such as India, banks cater to the needs of a vast number of savers from the household sector, which prefer assured income and liquidity and safety of funds, because of their inadequate capacity to manage financial risks. Forms of banking have changed over the years and evolved with the needs of the economy.

The transformation of the banking system has been brought about by deregulation, technological innovation and globalization. While banks have been expanding into areas which were traditionally out of bounds for them, non-bank intermediaries have begun to perform many of the functions of banks. Banks thus compete not only among themselves, but also with non-bank financial intermediaries, and over the years, this competition has only grown in intensity. Globally, this has forced the banks to introduce innovative products, seek new sources of income and diversify into non-traditional activities.

1.4.2 Definition of banks

In India, the definition of the business of banking has been given in the Banking Regulation Act, (BR Act), 1949. According to Section 5 (c) of the BR Act, 'a banking company is a company which transacts the business of banking in India.' Further, Section 5 (b) of the BR Act defines banking as, 'accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal, by check, draft,
order or otherwise.' This definition points to the three primary activities of a commercial bank which distinguish it from the other financial institutions. These are: (i) maintaining deposit accounts including current accounts, (ii) issue and pay cheques, and (iii) collect cheques for the bank's customers.

1.4.3 Meaning

A commercial bank is a profit-seeking business firm, dealing with money and credit. It is a financial institution dealing with money in the sense that it accepts deposits of money from the public to keep them in its custody for safety. So also, it deals with credit, i.e., it creates credit by making advances out of the funds received as deposits to needy people. It thus, functions as a mobilizer of saving in the economy. A bank is, therefore like a reservoir into which flow the savings, the idle surplus money of households and from which loans are given on interest to businessmen and others who need them for investment or productive uses.

1.4.4 Types of Banks

Broadly speaking, banks can be classier into commercial banks and central bank. Commercial banks are those which provide banking services for profit. The central bank has the function of controlling commercial banks and various other economic activities. There are many types of commercial banks such as deposit banks, industrial banks, savings banks, agricultural banks, exchange banks, and miscellaneous banks.
Figure 1.1 Type of Commercial Bank

- **Deposit Banks:** The most important type of deposit banks is the commercial banks. They have a connection with the commercial class of people. These banks accept deposits from the public and lend them to needy parties. Since their deposits are for short periods only, these banks extend loans only for a short period. Ordinarily these banks lend money for a period between 3 to 6 months. They do not like to lend money for long periods or to invest their funds in any way in long term securities.

- **Industrial Banks:** Industries require a huge capital for a long period to buy machinery and equipment. Industrial banks help such industrialists. They provide long term loans to industries. Besides, they buy shares and debentures of companies, and enable them to have fixed capital. Sometimes, they even underwrite the debentures and shares of big industrial concerns. The important functions of industrial banks are:
  1. They accept long term deposits.
  2. They meet the credit requirements of industries by extending long term loans.
  3. These banks advise the industrial firms regarding the sale and purchase of shares and debentures.

The industrial banks play a vital role in accelerating industrial development. In India, after the attainment of independence, several industrial banks were
started with large paid up capital. They are, The Industrial Finance Corporation (I.F.C.), The State Financial Corporation’s (S.F.C.), Industrial Credit and Investment Corporation of India (ICICI) and Industrial Development Bank of India (IDBI) etc.

- Savings Banks: These banks were especially established to encourage thrift among small savers and therefore, they were willing to accept small sums as deposits. They encourage savings of the poor and middle class people. In India we do not have such special institutions, but post offices perform such functions. After nationalization most of the nationalized banks accept the saving deposits.

- Agricultural Banks: Agriculture has its own problems and hence there are separate banks to finance it. These banks are organized on co-operative lines and therefore do not work on the principle of maximum profit for the shareholders. These banks meet the credit requirements of the farmers through term loans, viz., short, medium and long term loans. There are two types of agricultural banks, (a) Agricultural Co-operative Banks, and (b) Land Mortgage Banks. Co-operative Banks are mainly for short periods. For long periods there are Land Mortgage Banks. Both these types of banks are performing useful functions in India.

- Exchange Banks: These banks finance mostly for the foreign trade of a country. Their main function is to discount, accept and collect foreign bills of exchange. They buy and sell foreign currency and thus help businessmen in their transactions. They also carry on the ordinary banking business. In India, there are some commercial banks which are branches of foreign banks. These banks facilitate for the conversion of Indian currency into foreign currency to make payments to foreign exporters. They purchase bills from exporters and
sell their proceeds to importers. They purchase and sell “forward exchange”
too and thus minimize the difference in exchange rates between different
periods, and also protect merchants from losses arising out of exchange
fluctuations by bearing the risk. The industrial and commercial development
of a country depends these days, largely upon the efficiency of these
institutions.

Miscellaneous Banks: There are certain kinds of banks which have arisen in
due course to meet the specialized needs of the people. In England and
America, there are investment banks whose object is to control the
distribution of capital into several uses. American Trade Unions have got
labour banks, where the savings of the laborers are pooled together. In
London, there is the London Discount House whose business is “to go about
the city seeking for bills to discount.” There are numerous types of different
banks in the world, carrying on one or the other banking business.

1.4.5 Functions of Commercial Banks

The main functions of a commercial bank can be segregated into three
main areas:

- Payment System
- Financial Intermediation
- Financial Services.

Payment System

Banks are at the core of the payment system in an economy. A
payment refers to the means by which financial transactions are settled. A
fundamental method by which banks help in settling the financial transaction
process is by issuing and paying cheques issued on behalf of customers. Further, in modern banking, the payment system also involves electronic banking, wire transfers, settlement of credit card transactions, etc. In all such transactions, banks play a critical role.

Financial Intermediation

The second principal function of a bank is to take different types of deposits from customers and then lend these funds to borrowers, in other words, financial intermediation. In financial terms, bank deposits represent the banks’ liabilities, while loans disbursed, and investments made by banks are their assets. Bank deposits serve the useful purpose of addressing the needs of depositors, who want to ensure liquidity, safety as well as returns in the form of interest. On the other hand, bank loans and investments made by banks play an important function in channeling funds into profitable as well as socially productive uses.

Financial Services

In addition to acting as financial intermediaries, banks today are increasingly involved with offering customers a wide variety of financial services including investment banking, insurance-related services, government-related business, foreign exchange businesses, wealth management services, etc. Income from providing such services improves a bank's profitability.

1.4.6 History of Banking in India

The first bank in India, though conservative, was established in 1786. From 1786 till today, the journey of Indian Banking System can be segregated into three distinct phases:
● Early phase of Indian banks, from 1786 to 1969
● Nationalization of banks and the banking sector reforms, from 1969 to 1991
● New phase of Indian banking system, with the reforms after 1991

❖ Phase 1

The first bank in India, the General Bank of India, was set up in 1786. Bank of Hindustan and Bengal Bank followed. The East India Company established Bank of Bengal (1809), Bank of Bombay (1840), and Bank of Madras (1843) as independent units and called them Presidency banks. These three banks were amalgamated in 1920 and the Imperial Bank of India, a bank of private shareholders, mostly Europeans, was established. Allahabad Bank was established, exclusively by Indians, in 1865. Punjab National Bank was set up in 1894 with headquarters in Lahore. Between 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up. The Reserve Bank of India came in 1935.

During the first phase, the growth was very slow and banks also experienced periodic failures between 1913 and 1948. There were approximately 1,100 banks, mostly small. To streamline the functioning and activities of commercial banks, the Government of India came up with the Banking Companies Act, 1949, which was later changed to the Banking Regulation Act, 1949 as per amending Act of 1965 (Act No. 23 of 1965). The Reserve Bank of India (RBI) was vested with extensive powers for the supervision of banking in India as the Central banking authority. During those days, the general public had lesser confidence in banks. As an aftermath, deposit mobilization was slow.
Moreover, the savings bank facility provided by the Postal department was comparatively safer, and funds were largely given to traders.

❖ **Phase 2**

The government took major initiatives in banking sector reforms after Independence. In 1955, it nationalized the Imperial Bank of India and started offering extensive banking facilities, especially in rural and semi-urban areas. The government constituted the State Bank of India to act as the principal agent of the RBI and to handle banking transactions of the Union government and state governments all over the country. Seven banks owned by the Princely states were nationalized in 1959 and they became subsidiaries of the State Bank of India. In 1969, 14 commercial banks in the country were nationalized. In the second phase of banking sector reforms, seven more banks were nationalized in 1980. With this, 80 percent of the banking sector in India came under the government ownership.

❖ **Phase 3**

This phase has introduced many more products and facilities in the banking sector as part of the reform process. In 1991, under the chairmanship of M Narasimham, a committee was set up, which worked for the liberalization of banking practices. Now, the country is flooded with foreign banks and their ATM stations. Efforts are being put to give a satisfactory service to customers. Phone banking and net banking are introduced. The entire system became more convenient and swift. Time is given importance in all money transactions. The financial system of India has shown a great deal of resilience. It is sheltered from crises triggered by external macroeconomic shocks, which other East Asian countries often suffered. This is all due to a flexible exchange rate regime, the
high foreign exchange reserve, the not-yet fully convertible capital account, and the limited foreign exchange exposure of banks and their customers.

1.5 The Banking Structure in India

The commercial banking structure in India consists of scheduled commercial banks and unscheduled banks. Scheduled banks constitute those banks that are included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. As on June 30, 1999, there were 300 scheduled banks in India having a total network of 64,918 branches. The scheduled commercial banks in India comprise State Bank of India and its associates (8), nationalized banks (19), foreign banks (45), private sector banks (32), co-operative banks, and regional rural banks. Before the nationalization of Indian banks, the State Bank of India (SBI) was the only nationalized bank, which was nationalized on July 1, 1955, under the SBI Act of 1955. The nationalization of seven State Bank subsidiaries took place in 1959. After the nationalization of banks in India, the branches of the public sector banks rose to approximately 800 percent in deposits and advances took a huge jump by 11,000 percent.

✈ Nationalization Process

- 1955: Nationalization of State Bank of India
- 1959: Nationalization of SBI subsidiaries
- 1969: Nationalization of 14 major banks
- 1980: Nationalization of seven banks with deposits over Rs 200 crore

✈ Banking Regulator

The Reserve Bank of India (RBI) is the central banking and monetary authority of India, and also acts as the regulator and supervisor of commercial banks.
Scheduled Banks in India

Scheduled banks comprise scheduled commercial banks and scheduled co-operative banks. Scheduled commercial banks form the bedrock of the Indian financial system, currently accounting for more than three-fourths of all financial institutions’ assets. SCBs are present throughout India, and their branches, having grown more than fourfold in the last 40 years now number more than 80,500 across the country.

Figure 1.2 Scheduled Banks in India

Public Sector Banks

Public sector banks are those in which the majority stake is held by the Government of India (GoI). Public sector banks together make up the largest category in the Indian banking system. There are currently 27 public sector banks in India. They include the SBI and its 6 associate banks (such as State Bank of Indore, State Bank of Bikaner and Jaipur etc.), 19 nationalized banks (such as Allahabad Bank, Canara Bank etc.) and IDBI Bank Ltd. Public sector banks have taken the lead role in branch expansion, particularly in the rural areas.
Regional Rural Banks

Regional Rural Banks (RRBs) were established during 1976-1987 with a view to develop the rural economy. Each RRB is owned jointly by the Central Government, concerned State Government and a sponsoring public sector commercial bank. RRBs provide credit to small farmers, artisans, small entrepreneurs and agricultural labourers. Over the years, the Government has introduced a number of measures of improving the viability and profitability of RRBs, one of them is the amalgamation of the RRBs of the same sponsored bank within a State. This process of consolidation has resulted in a steep decline in the total number of RRBs to 86 as on March 31, 2009, as compared to 196 at the end of March 2005.

Private Sector Banks

In this type of banks, the majority of share capital is held by private individuals and corporate. Not all private sector banks were nationalized in 1969, and 1980. The private banks which were not nationalized are collectively known as the old private sector banks and include banks such as The Jammu and Kashmir Bank Ltd., Lord Krishna Bank Ltd etc. Entry of private sector banks was however prohibited during the post-nationalization period. In July 1993, as part of the banking reform process and as a measure to induce competition in the banking sector, RBI permitted the private sector to enter into the banking system. This resulted in the creation of a new set of private sector banks, which are collectively known as the new private sector banks. As at end March, 2009 there were 7 new private sector banks and 15 old private sector banks operating in India.
Foreign Banks

Foreign banks have their registered and head offices in a foreign country but operate their branches in India. The RBI permits these banks to operate either through branches, or through wholly-owned subsidiaries. The primary activity of most foreign banks in India has been in the corporate segment. However, some of the largest foreign banks have also made consumer-financing a significant part of their portfolios. These banks offer products such as automobile finance, home loans, credit cards, household consumer finance etc. Foreign banks in India are required to adhere to all banking regulations, including priority-sector lending norms as applicable to domestic banks. In addition to the entry of the new private banks in the mid-90s, the increased presence of foreign banks in India has also contributed to boosting competition in the banking sector.

Co-operative Banks

Co-operative banks cater to the financing needs of agriculture, retail trade, small industry and self-employed businessmen in urban, semi-urban and rural areas of India. A distinctive feature of the cooperative credit structure in India is its heterogeneity. The structure differs across urban and rural areas, across states and loan maturities. Urban areas are served by urban co-operative banks (UCBs), whose operations are either limited to one state or stretch across the states. The rural co-operative banks comprise State co-operative banks, district central co-operative banks, SCARDBs and PCARDBs. The co-operative banking sector is the oldest segment of the Indian banking system. The network of UCBs in India consisted of 1721 banks as at end-March 2009, while the number of rural co-operative banks was 1119 as at end-March 2008. Owing to their widespread geographical penetration, cooperative banks have the potential
to become an important instrument for large-scale financial inclusion, provided they are financially strengthened. The RBI and the National Agriculture and Rural Development Bank (NABARD) have taken a number of measures in recent years to improve financial soundness of co-operative banks.

1.6 PROGRESS OF COMMERCIAL BANKS: AN OVERVIEW

The banking sector is considered as one of the major organs of the financial system. It acts as a catalyst to economic growth by mobilizing adequate savings which in turn are allocated into productive channels. It also plays a crucial role in the socio-economic transformation of an economy by discharging the social responsibilities, namely, eradication of poverty, reducing regional disparity, ensuring high growth of employment and so on.

Over the years the banking industry in India has passed through various distinct phases and its overall performance varies widely across time and space. The entire period since independence till date can be broadly classified into four periods, i.e., Foundation, Expansion, Consolidation and Reform phase. The first period covered a decade or so during the fifties and sixties when development of necessary legislative framework for facilitating the re-organization and consolidation of the banking system was noticed so as to fulfill certain requirements of economy. The expansion phase covers the period since the nationalization of commercial banks (1969) to mid-1980s. It is during this period when banking sector gained momentum.

The beginning of consolidation phase can be traced back to 1985 when improvement in housekeeping, customer service, credit management,
improvement in productivity of staff and profitability of the banks were emphasized. Since the introduction of reforms in the financial sector till date can be considered as reform period. It needs to be specified that reforms in the banking sector were introduced based on the recommendation of the M Narasimham Committee (1991). During the said phase there has been introduction of new accounting and prudential norms relating to income recognition, provisioning and capital adequacy.

As mentioned, one of the major objectives of India’s development strategy has been widespread expansion of financial institutions so as to mobilize adequate resources to meet the emerging needs of the economy. In this context, banking sector was expected to play a vital role by ensuring timely and adequate credit disbursements to the productive units. No doubt, during the sixties, the Indian banking system made good progress and expanded quite considerably but it failed to cater to the economic needs of the community.

There was an absence of banking facilities for the large segment of the population as major part of the rural and semi-urban areas were either sparsely banked or not at all banked (Ojha, 1987). In addition, the money lenders used to charge exorbitant rates of interest on loans borrowed (Rangarajan, 1989) and there was prevalence of urban bias as evident from easy availability of bank credit for the large industries and trading houses. At the other end certain productive units were deprived of having access to banking funds. Therefore, a scheme of social control was introduced in early 1968 with the aim of changing the lending pattern by directing increasing volume of credit flow to the desired sectors and making banks an effective instrument of economic development. Identifying slow progress of the banking system in achieving societal goals
through the scheme of ‘social control’, nationalization of 20 major banks was initiated to hasten the pace of branch banking and to smoothen regional disparities.

In addressing the nationalization of commercial banks it may be mentioned that the Imperial Bank, treated as the largest bank in India in those days, was nationalized in 1955 and merged with the government owned banks of some of the princely states to become the State Bank of India (Agarwal, 1996). The first phase of major bank nationalization was introduced in July 1969 when 14 largest privately owned commercial banks, each having a deposit liability of Rs 50 crores and above were nationalized. It followed nationalization of 6 more commercial banks in 1980, each having a deposit liability of Rs 200 crores and above.

Nationalization of banks was effected for speedy achievement of social purposes such as meeting the legitimate requirements of the weaker sections of the society. This can be facilitated by reducing both concentration of banks in a specific region and their influence on industrial and business monopolies as reflected by allocation of more resources for this sector. In other words, the savings mobilized can be utilized for productive purposes based on plans and priorities. To be specific, it needs to be ensured that credit needs of the productive sectors and weaker sections of the economy especially farmers, SSI and self-employed have been fulfilled. The distribution of institutional credit in favor of the farmers and informal sector production units, viz., small scale industries, village artisans and household enterprises, could serve the purpose of expanding production base along with rise in employment opportunities. This, in turn, could reduce the extent of poverty and improve the standard of living of the
households. Further, efforts have to be made to kick start growth in some of the hitherto neglected backward regions.

1.6.1 Banking Sector during Pre-Reforms Period

Prior to economic reforms introduced in 1991, the Indian banking and financial system made commendable progress in extending its geographical spread and expanding branch network. This is reflected by the growth of financial savings and fulfillment of the credit requirements of the borrowers especially in agriculture and small scale industry (Narasimham, 1991). In contrast, there has been a decline in productivity and efficiency, and erosion of profitability of the banking sector. This is partly on account of lower interest rate charged by the commercial banks for directed investments and directed credit programmes, rise in expenditure on account of fast and massive expansion of branches, inadequate progress in updating work technology and weaknesses in the internal structure of the banks. No doubt, various factors are held accountable for this, yet the crucial one is the policy induced rigidities such as excessive degree of central direction of their operations in terms of investments, credit allocations, branch expansion and even internal management aspects of the business. The operation of the banking system in the rigidly controlled system especially maintenance of high reserve requirements, interest rate controls and allocation of financial resources to priority sectors made them neither competitive nor innovative.

Shetty (1996) argues that poor performance of the banking sector during the early 1990s can be on account of poor loan portfolio, sizeable non-performing assets, declining productivity and operational efficiency, low capital base which deteriorated due to sharp erosion in profitability, poor housekeeping
and deterioration in customer service. But the erosion in profitability of banks is not due to directed investment or directed credit as it is generally believed to be. Therefore, there was an urgent need for the banks to get involved in priority sector lending else the state had to intervene. Similarly, to tackle the management related weakness, public sector banks need to be freed from the clutches of bureaucrats. No doubt, different committees set up over time examined some of the issues discussed above and recommended policy measures. But either non-implementation or adoption of piecemeal approach in implementing the recommendations culminated the problem further.

1.6.2 Reforms and Challenges in the Banking Sector

Introduction of reforms in the Banking sector seems to have been initiated during the 1980s based on the recommendation of the Chakravartty Committee Report (Report of the Committee to Review the Working of the Monetary System). The committee justified the necessity to move away from quantitative controls so as to remove distortion in the credit market in achieving higher growth of the economy. Similarly it is also specified that administered interest rate system has become unduly complex and therefore, it has reduced the ability of the system to ensure effective use of credit. The persistence of administered interest rates failed to make sure necessary flexibility to mobilize adequate financial savings by introducing suitable changes in the deposit rates. This, in turn, affected the average cost of deposits and therefore, a decline in profitability cannot be ruled out.

In the backdrop of erosion in productivity and efficiency, reforms in the banking sector were introduced based on the recommendations of the Committee on the Financial System (1991) and the Report of the Committee on
Banking Sector Reforms (1998) headed by M Narasimham. Undoubtedly, reforms in the financial sector received a major thrust with the identification of various factors accountable for decline in productivity, profitability and erosion inefficiency during the two decades since nationalization of commercial banks. Overall, the major reforms in the banking sector introduced in Indian economy can be grouped into six categories: prudential measures, reforms in institutional and legal set-up, changes in supervisory aspects, adoption of various methods to enhance competition, issues related to improvement in the role of market forces and technology related aspects. Broadly, the recommendations of the committee include liberalization of entry norms for domestic and foreign banks, reduction in the levels of statutory preemption, to dismantle the complex structure of interest rates, lay down capital adequacy requirements, introduce income recognition and provisioning for bad debts. To ensure safety and soundness of the financial system and at the same time to encourage market forces to play a crucial role, prudential norms and regulations need to be introduced (Jadav and Ajit, 1996).

There are two primary purposes to introduce prudential norms, i.e., to reveal the true picture of the banks’ loan portfolio and to help arrest its deterioration (Rangarajan, 1994). Based on this, prudential norms for classification of assets and provisioning for bad debts have been introduced. The capital adequacy norm can be considered as incentive based regulation whereby well capitalized and efficient banks can compete and impose cost on undercapitalized and poorly managed banks (Jadavand Ajit, 1996). It allows the efficient banks that can control its risk can hold less capital compared to the inefficient banks. The Capital-to-risk weighted assets ratio of 8 percent has been introduced with further rise to 9 per cent since 1999-2000.
As part of statutory pre-emption, the Committee argued that it can be used as a prudential requirement but not as an instrument for financing public sector requirement. Further, the SLR needs to be brought down to 25 per cent over a period of five years and Cash Reserve Ratio to be gradually reduced though interest on these instruments to be raised. Also Debt Recovery Tribunals have been set up to assist the banks in the recovery of loans. The scheme of Ombudsman introduced in 1995 can look into and resolve customer grievances. Based on the recommendations, noticeable change in various norms has been observed over time. For instance, during the early 1990s through the use of Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) as much as 63.5 per cent of the bank resources were pre-empted (Rakesh Mohan, 2004). But these rates have been cut considerably in a sequenced manner as SLR declined from 38.5 per cent in 1991-92 to the statutory minimum of 25 per cent now while CRR dropped from 15 per cent to 4.5 percent during the said period.

The level and structure of interest rates have been rationalized in a phased manner. There has been abolition of minimum lending rates and the banks have been allowed to determine their prime lending rates. The Prime Lending Rates (PLRs) declined from 19 per cent in 1991-92 and the benchmark PLR in respect of 5 major banks remained in the range of 10.5-11 per cent. The interest rates on loans above Rs 2 lakh have been fully deregulated. Similarly, interest rates on domestic term deposits have also been deregulated. In 1995, all controls on deposit rates above one year maturity were removed. To strengthen supervisory system of banks and financial institutions Board of Financial Supervision (BFS) has been set up. Further, less strong banks that suffered capital erosion due to rising levels of NPA have been recapitalized.
It is during the 1990s when the commercial banks particularly the public sector banks have faced new challenges, namely, improving bottom-line, reducing non-performing assets and to observe the discipline of regulatory and prudential norms for capital adequacy. The persistence of soft interest rate regime across the globe also motivated the banks to diversify their activities from purely traditional banking to providing various financial and other services to its customers. Of late, banks have preferred non-interest income deployment of funds for their survival.

1.6.3 Progress in Social Aspect of Banking

The commercial banks can play a vital role in the process of economic development and achievement of social justice. This can be facilitated through extension and expansion of banking facilities in unbanked and under-banked areas, mobilization of savings to meet investment requirement of an economy, allocation of credit for developmental purposes with focus on priority sector lending so as to relieve the farmers from clutches of money lenders and to improve growth of employment, diversification of banking activities based on the changing needs of the customers, and improvement in productivity, profitability and quality of customer care to grow and face the challenges over time. However, mere growth in the banking sector may not necessarily alleviate poverty and reduce disparities in per capita income across regions and various groups of people. Therefore, one of the major issues that need to be assigned priority is the concept of ‘social banking’, i.e., a shift from urban centric growth to adoption of rural–oriented growth strategy. The shift from ‘class banking’ to ‘mass banking’ was one of the crucial issues that motivated nationalization of commercial banks.
In social banking, not only fresh procedures are to be evolved to suit the needs of a new class of borrowers, but the whole philosophy of lending has also to undergo a radical change, and is an entirely new and unconventional approach to bank lending (Garg, 1994). Social banking aim at the participation of the bankers in the process of economic development to achieve developmental goals without jeopardizing or even diluting the professional standards of banking. In other words, social banking refers to the policy induced bank assistance to the designated priority sectors of the economy and weaker sections of the community (Garg, 1994).

1.6.4 Growth of Bank Office

Prior to economic reforms Indian banking and financial system made commendable progress in extending its geographical spread and functional reach. For instance, number of Scheduled commercial banks increased about two times in about a decade during the 1970s and the trend almost continued during the 1980s with a slowdown in the 1990s. Similarly, massive growth of commercial bank office was noticed during the 1970s (from marginally higher than 8,000 in 1969 to close to 32,500 in 1980) and to a large extent in the early 1980s (a rise of about 19,000 during 1980-1985). An unprecedented growth of office since nationalization of major commercial banks implies adequate availability of banking facilities at large. In contrast, during the initial period of economic reforms when the growth of the bank office witnessed slow growth though it picked up during the second half of the 1990s. The number of offices went up by about 2000 during 1990-1995 while it increased by about 5,500 during 1995-2000. A comparative analysis of annual average growth of SCBs office during the pre-reforms and reforms periods reveals sharp erosion during the latter period (from 5.1 per cent in 1980-91 to 0.8 per cent during 1992-2003).
A mere slowdown in growth of offices would not be a major source of concern provided the commercial banks sustained rising trend in the rural area. In this context, it can be mentioned that one of the major objectives of bank nationalization is to shift from ‘elite banking’ to ‘mass banking’ by expanding banking facilities in the rural, semi-urban areas especially in unbanked and under-banked areas. In other words, persistence of ‘urban-centric’ nature of banking at the cost of rural areas can affect allocation of credit for developmental purposes especially for the priority sector and therefore, it can be a cause for serious concern.

Decline in growth of offices in the rural and semi-urban areas are noticed during the reform period despite the fact that a large chunk of the total population lives in rural areas. In rural areas it declined from 6.7 per cent in 1980-91 to 0.8 percent in 1992-2003. Growth in semi-urban area also witnessed a fall during the said period but the extent of the decline is not so pronounced as compared to the rural area. At the other end there has been improvement in growth of offices in the metropolitan area during the reform period.

The disparity in growth of office (as noticed during the 1990s) can change the share of office across population groups. For instance, close to 60 per cent of total offices were in the rural area during the mid-80s and early 1990s. It declined sharply to about 47 per cent during the closing years of the 1990s and also in recent years. At the other end, there has been growth of office in the urban and metropolitan area during the reform period. The share of metropolitan area in total office of the commercial banks which was less than 10 percent during the mid-1980s and early 1990s went up to 14 per cent in the recent past. The number
of rural office decline by close to 2,500 during 1992 – 2000. In contrast a number of offices in urban and metros went up by around 2,200 and 3,500 during the above said period. It reflects the emergence of a tendency to exit from rural areas in the recent past. This is noticed despite the fact that cost of deposit is relatively low in rural areas as compared to urban and metros. Normally people in the rural areas prefer savings account deposit and withdraw money less frequently while the bulk of the deposits in urban and metros comes from the people working in the organized sector (salaried class) who used to withdraw money more frequently. No doubt, proliferation of ATM facilities is likely to reduce the cost of serving a customer in the urban areas provided customers would feel comfortable to withdraw cash from an ATM.

While examining the fall in growth of office during the reform period, the role of RBI cannot be ignored. The RBI gave up its bank expansion program in April 1995 and therefore, the number of SCBs rural offices steadily declined from 32,981 in March 1996 to 31,999 in September 2004 (Shetty, 2005). It can be mentioned that since 1996, banks having three year profitability record and non-performing assets below 15per cent can be allowed to open new branches. The banks will have to fulfill certain other requirements such as maintaining capital adequacy norm of 9 per cent and minimum owned fund requirement of Rs 100 crore. This seems to be difficult to achieve for a number of Public Sector Banks. Apart from the policy reforms, the growth of branch expansion can be determined by the performance of various sectors. A substantial growth in service sector during the reform period might have motivated the bankers to accelerate growth of branch expansion in the Metropolitan area. Added to this, the growth of private sector and foreign banks threw a challenge to their public sector counterparts in the recent past.
1.6.5 Indian Commercial Banks

Commercial banks in India have traditionally focused on meeting the short-term financial needs of industry, trade and agriculture. However, given the increasing sophistication and diversification of the Indian economy, the range of services extended by commercial banks has increased significantly, leading to an overlap with the functions performed by other financial institutions. Further, the share of long-term financing (in total bank financing) to meet capital goods and project-financing needs of the industry have also increased over the years.

1.7 HR PRACTICES IN COMMERCIAL BANKS

HRM contributes to organizational performance in different ways: through sound functional basics; through effective realignment when the external environment changes; and by building an organizational context to that the organization can cope with the dualistic forces. Human resource management (HRM) has long been overlooked in the corporate sector in the country where a small section, comprising mostly the multi-national companies were practicing the same. With the growing realization of proper HRM in the corporate sector, it has grown into an important activity. Now the head of HRM is an important member of the senior teams of any thriving business. Although the idea is new for many local businesses where entrepreneurs are at the beginning of the learning curve yet in reality the theme is getting support from the organized entrepreneurs.

The banking sector has grown from a few institutions primarily involved in deposit acceptance and trade finance into a complex multi player market where a large number of commercial banks, financial institutions and
specialized banks are operating with various products and activities. The banking has become a complex activity within the financial market linked directly and indirectly with an over-all national growth and its impact as an integral part of a regional segment of a global banking environment.

Almost every bank and financial institution is involved in various functions in a day's job and thus requires a highly effective team and appropriate manpower to run the show. Corporate goals are translated into viable realities and profits only with the human element that play their due role in achieving the desired results. Thus even the high automation would require proper man behind the machine to make things happen. This idea has been realized by top managements in progressive banks. Like many other organized sectors, banking requires multi layer manpower for its various requirements of professionals and support staff. The range may require reasonably educated security guards on the one end and a highly educated and trained professional as head of corporate finance at the other.

With liberalization of activities within the banking sector, for example, more emphasis on consumer and house finance and personal loans, etc. banking has turned itself into a more market-based business where banks have expanded their reach more to customers' doorsteps in a big way making banking more practical. This has further highlighted the need for proper deployment of manpower to run banks efficiently. For many years, HRM banks like other institutions have been handling this sensitive activity through respective personnel departments. This means human resources were managed like other physical assets e.g. pieces of furniture, calculators, equipment and appliances. Personnel departments were primarily engaged in approval of leaves, handling of
staff loans, issuance of show cause, conducting disciplinary enquiries and termination of service. Recruitment was a routine function and was done in a mechanical way to hire people with a specific educational background irrespective of their real value to the institution.

Success stories of large banking companies have been evident of the fact that HRM is quite different from management of physical assets. Human brain has its own peculiar chemistry. Its strong sensory and decision-making capacity has to be greatly emphasized by the employers. The work forces constituting all levels of employees are constantly thinking in many dimensions. On the one hand it is the assigned duty and task they are to perform and for which they are paid by their employer, on the other they think of their long run goals and objectives.

The Indian banking industry has been an important driving force behind the nation’s economic development. The emerging environment poses opportunities and threats to banks, as well as the human resource in changing economic and business environment. The primary emphasis needs to be on integrating human resource strategies with the business strategy. The above aspects of recruitment, placement, performance management, rewards and employee relations - a radical transformation of the existing personnel structure in public sector banks like the seniority over performance is not the best environment for attracting the best talent from the young competitive environment.
The core function of HR in the banking industry is to facilitate the performance improvement among its people. Factors such as skills, attitudes and knowledge of personnel, play a critical role in determining the competitiveness within the organization or the industry. The quality of human resources indicates the ability of banks to deliver the value to clients or customers.

However, recruitment practices as well as on-the-job training and redeployment are considered as one of those many improvements of HR in Indian Banks. To make the Indian Banking System stronger, efficient and low-cost, the creation of fundamentals must include in the bank’s operations, strategies and processes: strengthening the prudential norms and market discipline; adoption of international benchmarks; management of organizational change and consolidation within the financial system; upgrading the technological infrastructure of the financial system; and human resource development as the catalyst of the transformation. The Human Resource field in the Banking Industry is considered as one of the process of discovery and transformation. The field of Human Resource can be described as emergent and dynamic within the cultural business aspect in a Banking Industry.

The success of today’s banking business will sparsely depend on the human resources of the organization, which plays a crucial role in providing the services needed. The evolution of banking system in India affected the human resource practices, recruitment and selection practices, and training system. It is very important that the details of human resource are discussed along with the employees, to build their own career planning, perceptions and development. The primary strength of the industry is the human resource that is why the efforts to develop the skills and management are the main subject placed before the human
resource. A major challenge for many banks will be to develop the special competencies and skills for credit appraisal and risk management. Putting the information technology is a key contributor to human resource development. Therefore, the HR model of the future will require professionals to be both driving and anticipating change, understanding the complexities of the new business environment and the forces shaping it.

1.7.1 HR Practices and Methods

A key focus of the human resource management is highlighted in the role of staffing, performance management, training and development, and compensation that plays in different types of business strategies. With the acquisition and preparation of human resources, including planning, recruitment, selection, and training can affect the whole organizational performance.

- The HR planning, the start of the strategy, illustrates the process of developing a human resource plan. The strengths and weaknesses of staffing options such as outsourcing, use of contingent workers, and downsizing are involved in planning.
- The recruitment process is done strategically to determine the talented employee fit for the position.
- The selection process emphasizes the ways in minimizing errors in employee selection and placement to improve the company’s competitive position. The selection method standards such as validity and reliability are utilized.
- An effective training system of the manager’s role in determining employees’ readiness for training, creating a positive learning environment, and ensuring the training is used on the job. Beyond the human resource strategies are the rewarding and compensating that can
strengthen or weaken the employee effectiveness. In order to give recognition and increase motivational levels amongst the employees, some Banks linked the individual performance in an incentive scheme – or for some rewards that may come into any form.

By no means, their brains can be controlled to think beyond the current situation of employment. Managing this educated, skillful and trustworthy workforce is not an easy job. A few of the current challenges faced by the banking industry in terms of human resource management may be the following:

1.7.2 Challenges faced by the Banking Industry in terms of Human Resource Management:

❖ Effective work force:

A time-consuming and hectic job is to hunt the right talent. It’s just sitting by the river and waiting for the right fish to catch. Higher the professional value of the vacancy, tougher is the search. Identifying the right stuff followed by negotiation is the element which makes the job tougher for the employer. Banks are keenly interested to fill up two types of breeds of professionals. The ones who are outstanding professionals with high job hopping attitude - these are those who come in - work for some time and then leave for better prospects. Others are those who are keenly picked up, trained and are somehow retained to be developed as future management within the bank. Management trainees are a growing popular phenomenon where freshly qualified business graduates are engaged by banks and a certain percentage of these well equipped professionals stay back within the organization to grow into the footsteps of senior managers. Banking jobs being apparently lucrative for many attract a large number of candidates against advertised vacancies in media creating a large database
management problem. This has been facilitated by specialized hiring agencies who may take up the job of hiring in case of a large number of vacancies.

яд Right people:

The most difficult agenda of HRM across the banking sector is to retain the right people. Sudden growth of retail banking and other services has put pressure on HR managers in banks to engage more professionals within a shorter span of time thereby attracting manpower in other banks on attractive packages has made the job market very competing. A bank in a normal course invests time and money to hire and train the appropriate work force for its own operations. This ready-made force is often identified and subsequently picked-up on better terms by others.

яд Compensation:

How much to pay for the right employee and how much for the outstanding performer. Banks have traditionally followed pay scales with predetermined increments, salary slabs, bonuses and time-based fringe benefits like car and house advance, gratuity, pension, etc. The situation is not the same anymore. An increment of Rs500-800 per annum is no more a source of attraction for a professional anymore. A basic pay with traditional formulas of linkage with medical and other facilities has no soothing effect today.

A promise of future growth, learning culture and corporate loyalty is out of the dictionary and does not mean anything to this energetic and competent performer today. A waiting period of 3-4 years in each cadre haunts the incumbents who strongly believe in immediate compensation. There are
examples of this. Thanks to the car financing modalities car is no more a fantasy item any more. A freshly hired professional requires a brand new car or car loan on resuming office quite contrary to his previous breed of bankers who would wait for the job seniority to qualify for a car loan.

❖ **Job satisfaction:**

Everybody in the bank wants to work in the preferential department, preferential location, the city of his own choice and boss of his liking. An administrative deviation from any of these results in lower job satisfaction. Although hiring is normally based on regional requirement matching the area of activity with that of the employee's nativity yet other elements like appointment in the department of choice and preference makes the job of HR manager quite challenging. What the HR manager cannot afford is the dissatisfied employee who not only disrupts the smooth working himself but also spreads the negativity to others by his de-motivated attitude.

❖ **Morale boosting:**

What has long been overlooked is the morale boosting of the employees by the organizations. Human beings even if satisfied of material well being needed to be appraised and encouraged constantly. Smart banks have realized this need and have taken steps to keep their work force motivated through proper encouragement like man of the month awards, repeat get-togethers, conferences, sports events, dinners, company sponsored travel, reunions, etc. This is the way employees create a feeling of belongingness.

In summary, all of the HRM strategies and function should be aligned to help the company meet its objectives – as well as focusing on their customers.
The best practice approach asserts that certain HR practices are found to consistently lead to higher organizational performance, independent of an organization’s stated strategy.

The high performance HR practices foster innovation through the development of innovation values, encouraging of information sharing, goal setting and appropriate training and development. The major innovations in HR practices occurred when senior line managers take the lead and their adoption depends on the attitude of top management and their relationship with the HR department.

1.8 STRUCTURE OF THE REPORT

Chapter - 1: INTRODUCTION TO THE STUDY

This chapter presents the introduction about the study, introduction to the banking sector, commercial banks in India, HRM and commercial banking, HR challenges faced by banks.

Chapter - 2: REVIEW OF LITERATURE

The chapter covers an objective review of past studies to describe the theory, empirical models and salient findings that defined the scope and focus of analysis of the present study. Includes Statement of the problem, the need and scope of the study, objectives of the study, Conceptual framework, and research hypotheses.
Chapter - 3: RESEARCH METHODOLOGY

This chapter presents a brief description of the methodology adopted by the researcher. It includes the universe for the study, sampling method, data collection and statistical tools used for the analysis.

Chapter - 4: ANALYSIS AND INTERPRETATION

The results of analysis of data are presented and discussed in this chapter, with reference to the objectives of the study, to draw specific inferences.

Chapter - 5: DISCUSSIONS AND CONCLUSION

A summary of work done and discussion and of supporting literature with the findings of the study are presented. Furthermore Managerial implication and direction for future research included. The results of the test of hypotheses are presented to draw conclusions about the role of HRM practices on organizational and employee performance.