CHAPTER I

INTRODUCTION TO “IMPACT OF ORGANIZATIONAL CULTURE AND COMMUNICATION ON EMPLOYEE ENGAGEMENT”

1.1 Introduction to the study

Success stories of flourishing business organizations have been scripted on contributions made by engaged employees. Engaged employees profoundly express themselves physically, cognitively and emotionally during performances in various roles in the organization. They act as drivers of financial and market success. They give stellar performances by trying to stretch themselves and continuously strive to outperform by setting new standards of excellence. Owing to this, enhancing employee engagement has gained momentum in business organizations across the globe. Employees are engaged when organizations have healthy work culture and communication practices, where they can get platforms to express their concerns and opportunities to grow and develop their potential. Today competitors can emulate the performance of the service provided but they cannot replicate the vigor, dedication and absorption of their employees at the place of work. This thesis outlines how employee engagement can be increased through organizational culture and communication. This study provides a methodology for measuring impact of these antecedents on facilitating employee engagement.
1.2 Employee Engagement

Employee engagement is the degree to which an employee is cognitively and emotionally attached to his work and organization. It reflects in the level of identification and commitment an employee has towards the organization and its values. An engaged employee is aware of the business context, and works as a team member to improve performance of the job for the benefit of the organization. Engaged employees are concerned about the future of the organization and are willing to invest discretionary efforts for the organization.

Hewitt Associates (2006) defines employee engagement as those who say speak - positively about the organization, stay – desire to be an effective member and strive - continue to perform beyond minimal requirements for the organization.

Engaged employees are more profitable, productive, focused, have fun and less likely to leave the company because they are engaged (Gallup Organization, USA, 1999). Employee engagement is closely linked to employee turnover, customer satisfaction, loyalty, productivity, safety and profitability criteria (Harter, Schmidt and Hayes, 2002). Studies on employee engagement (Tower Perrin, USA 2003, 2007) linked the same to customer impact and financial results. They suggested that there exists a close relationship between high levels of employee engagement and lower staff turn-over rates, higher customer satisfaction and loyalty The need to create development and career growth opportunities, appropriate leadership styles and work – life balance were deemed important to attract, retain and engage employees. Engaged employees are not just committed but passionate about their work.

According to Watson Wyatt (2002) consulting companies, as organizations globalize and become more dependent on technology in a virtual working environment, there is greater need to
connect and engage with employees to provide them with an organizational identity. They have a line-of-sight of their future and on the organization’s mission and goals. They are enthused and in gear, using their talents and discretionary effort to make a difference in their employer’s quest for sustainable business success.

According to Corporate Leadership Council (2004), engaged employees are less likely to feel exhausted and express cynicism towards the organization. They are assets who will guarantee organizational success. (Johnson, 2011)

1.3 Drivers of Employee Engagement

Employee engagement is an outcome of interplay of several individual and organizational factors at work. Although there is little empirical research on the factors that predict employee engagement, it is possible to identify a number of potential antecedents from Kahn’s (1990) and Maslach et al.’s (2001) model. Towers Perrin (2003) have identified senior management’s interest in employees’ well – being, challenging work, decision – making authority, customer orientation of the organization, career advancement opportunities, employer brand, collaborative work environment, resources to get work done and vision of the top management as drivers of employee engagement. Development Dimensions International (DDI) defined employee engagement as ‘the extent to which people enjoy and believe in what they do and feel valued for doing it’ They have highlighted three main drivers of engagement- right employees in right jobs, exceptional leadership and organizational systems and strategies. Literature suggests that organizational culture enhances intrinsic motivation, employee commitment, job - involvement and job - satisfaction. (Fogarty1992, Russo, 1998, Woodruffle, 2006). Employees also perceive a
sense of worth and belongingness if they are well communicated by superiors, subordinates and colleagues (Hatch, 1966). Studies undertaken by Towers Perrin (2003), Watson Wyatt (2006) reflect that communicational climate and styles impact employee engagement. Lyndsey Havill (2010) also cites communication as one of the drivers of engagement for accounting firms. Organizations that wish to improve employee engagement should focus on employees’ perceptions of the support they receive from their organization (Saks, 2006). Several studies have been undertaken by researchers and consulting firms to ascertain the effects of employee engagement. But there is dearth of studies in exhaustively investigating the antecedents of employee engagement.

This study aims at unraveling the role and impact of organizational culture and communication on employee engagement.

1.4 Employee Engagement in the Banking Sector

Banking Sector was chosen for the study because of the sheer dynamism and tremendous challenges that it has been witnessing in the recent years. This is primarily attributed to changing and ever increasing needs of customers as well as immense competition in the banking sector. For sustaining these challenges it is imperative to have engaged employees. Engaged employees will stay with the banks, be an advocate for its services and contribute to bottom line business success. They will be motivated to perform better. Since there is a significant link between employee engagement and profitability - they will help their organizations tide over challenges both in the short and long run. They will form an emotional connection with their respective banks, which in turn will impacts their attitude towards clients and improves customer
satisfaction and service levels. By enhancing passion, commitment and alignment with the organization's strategies and goals, they will enable their organizations to reach new heights of excellence. Engaged employees will demonstrate increased trust in their organization and foster a sense of loyalty in a competitive environment. There will be a high-energy positive working environment in the banks through engaged employees which will boost business growth and provide them with a competitive edge.

1.5 Indian Banking Industry

Indian banking in the organized sector originated in the last decades of the 18th century. The first banks were The General Bank of India, which started in 1786, and Bank of Hindustan, which started in 1790. The oldest bank in existence in India is the State Bank of India, which originated in the Bank of Calcutta in June 1806, which almost immediately became the Bank of Bengal. This was one of the three presidency banks, the other two being the Bank of Bombay and the Bank of Madras, all three of which were established under charters from the British East India Company. For many years the Presidency banks acted as quasi-central banks. The three banks merged in 1921 to form the Imperial Bank of India, which, upon India's independence, became the State Bank of India (http://finance.indiabizclub.com/info/Indian banking industry accessed on 19.10.2011). Some banks like the Indian merchants in Calcutta was established the Union Bank in 1839, but it failed in 1848 as a consequence of the economic crisis of 1848-49. The Allahabad Bank, established in 1865 and still functioning today, is the oldest Joint Stock bank in India. When the American Civil War stopped the supply of cotton to Lancashire from the Confederate States, promoters opened banks to finance trading in Indian cotton. Subsequently,
banking in India remained the exclusive domain of Europeans for next several decades until the beginning of the 20th century.

Foreign banks too started to arrive, particularly in Calcutta, in the 1860s. The Comptoire d'Escompte de Paris opened a branch in Calcutta in 1860, and another in Bombay in 1862; branches in Madras and Puducherry, then a French colony, followed. HSBC established itself in Bengal in 1869. Subsequently there was the existence of banks like Punjab National Bank, established in Lahore in 1895 and bank of India in 1906 in Mumbai – both of which were founded under private ownership. In the period that followed the Indian economy was passing through a relative period of stability. Around five decades had elapsed since the Indian Mutiny, and the social, industrial and other infrastructure had improved. Indians had established small banks, most of which served particular ethnic and religious communities.

The presidency banks dominated banking in India but there were also some exchange banks and a number of Indian joint stock banks. The exchange banks, mostly owned by Europeans, concentrated on financing foreign trade. The period between 1906 and 1911, saw the establishment of banks inspired by the Swadeshi movement. The Swadeshi movement inspired local businessmen and political figures to found banks of and for the Indian community. A number of banks established then have survived to the present such as Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India.

India's independence marked the end of a regime of the Laissez-faire for the Indian banking. The Industrial Policy Resolution adopted by the government in 1948 resulted in greater involvement of the state in different segments of the economy including banking and finance. A major milestone in the Indian banking industry was the setting up of the Reserve Bank of India. In 1949, the Banking Regulation Act was enacted which empowered the Reserve Bank of India.
(RBI) "to regulate, control, and inspect the banks in India." (http://finance.indiabizclub.com/info/Indian banking industry accessed on 19.10.2011)

1.5.1 Nationalization

In spite of the essaying of broader and sweeping powers of India, most banks in India except the State Bank of India continued to be owned and operated by private persons. By the 1960s, the Indian banking industry had become an important tool to facilitate the development of the Indian economy. The Government of India issued an ordinance and nationalized the 14 largest commercial banks with effect from the midnight of July 19, 1969. Within two weeks of the issue of the ordinance, the Parliament passed the Banking Companies (Acquisition and Transfer of Undertaking) Bill, and it received the presidential approval on 9 August 1969.

A second dose of nationalization of 6 more commercial banks followed in 1980. The stated reason for the nationalization was to give the government more control of credit delivery. With this move, the Government of India controlled around 91% of the banking business of India. Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalized banks and resulted in the reduction of the number of nationalized banks from 20 to 19. After this, until the 1990s, the nationalized banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy.
1.5.2 Liberalization

In the early 1990s, the then Narasimha Rao government embarked on a policy of liberalization, licensing a small number of private banks. These came to be known as New Generation tech-savvy banks, and included Global Trust Bank (which later amalgamated with Oriental Bank of Commerce, UTI Bank (now renamed as Axis bank), ICICI Bank and HDFC Bank. This move, along with the rapid growth in the economy of India, revolutionized the banking sector in India. All the three category of banks namely government owned banks, private banks and foreign banks saw steady growth during this period.

With the relaxation in the norms for Foreign Direct Investment, new strides were ushered in a modern outlook and tech-savvy methods of working for traditional banks, wide variety of product range and better penetration in various parts of the country. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region. The Reserve Bank of India along with the government of India have made significant changes to improve and strengthen the sector. These include rationalizing prudential norms, enhancing the payment system and integrating regulations between commercial and co-operative banks. These developments have led to the retail boom in the banking sector in India.

Most of the banks today have progressive practices and modern technology, which offer a wide array of products and services to various types of customers. The onslaught of liberalization will continue to bring new and innovative interventions like corporate governance, leading to
technological expertise, and experience in providing retail banking services across the globe. The Indian banking sector is poised to witness immense competition with entry of new players.

1.5.3 Co-operative Banks

Co-operative movement is quite well established in India. The first legislation on co-operation was passed in 1904. In 1914 the Maclagen committee envisaged a three tier structure for co-operative banking viz. Primary Agricultural Credit Societies (PACs) at the grass root level, Central Co-operative Banks at the district level and State Co-operative Banks at state level or Apex Level. The first urban co-operative bank in India was formed nearly 100 years back in Baroda. The Co-operative banks are an important constituent of the Indian Financial System, judging by the role assigned to them, the expectations they are supposed to fulfill, their number, and the number of offices they operate. The co-operative movement originated in the West, but the importance that such banks have assumed in India is rarely paralleled anywhere else in the world. Their role in rural financing continues to be important even today, and their business in the urban areas also has increased phenomenally in recent years mainly due to the sharp increase in the number of primary co-operative banks. While the co-operative banks in rural areas mainly finance agricultural based activities including farming, cattle, milk, hatchery, personal finance etc. along with some small scale industries and self-employment driven activities, the co-operative banks in urban areas mainly finance various categories of people for some of the co-operative banks are quite forward looking and have developed sufficient core competencies to challenge state and private sector banks.
According to NAFCUB the total deposits & lendings of Co-operative Banks is much more than Old Private Sector Banks & also the New Private Sector Banks. This exponential growth of Co-operative Banks is attributed mainly to their much better local reach, personal interaction with customers. Though registered under the Co-operative Societies Act of the Respective States (where formed originally) the banking related activities of the co-operative banks are also regulated by the Reserve Bank of India. They are governed by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1965. (Reserve Bank of India report on trend and progress of banking in India 2009-2010)

1.5.4 The Current Scenario

Currently India has 88 scheduled commercial banks - 28 nationalized banks (those where government of India have a stake), 29 private banks (these do not have government stake, they may be listed and traded on stock exchanges) and several co-operative banks. According to Reserve Bank of India (RBI) report 2009-10, there was a slowdown in the balance sheet growth of scheduled commercial banks (SCBs) with some slippages in their asset quality and profitability. Bank credit posted a lower growth of 16.6 per cent in 2009-10 on a year-on-year basis but showed signs of recovery from October 2009 with the beginning of economic turnaround. Gross non - performing assets (NPAs) as a ratio to gross advances for SCBs, as a whole, increased from 2.25 per cent in 2008-09 to 2.39 per cent in 2009-10.

The RBI has further asserted that, notwithstanding some knock-on effects of the global financial crisis, Indian banks withstood the shock and remained stable and sound in the post-crisis period. Indian banks now compare favorably with banks in the region on metrics such as growth,
profitability and loan delinquency ratios. In general, banks have had a track record of innovation, growth and value creation. The Reserve Bank has been initiating several measures to strengthen the banks taking cues from the international developments. Important regulatory initiatives such as the introduction of the Base Rate system is expected to lead to transparent and effective pricing of loan products while the intent to allow opening of new banks will instill competition and accelerate financial inclusion. Technological initiatives will help in providing cost effective banking services in under banked areas. Management of NPAs by banks remains an area of concern, particularly, due to the likelihood of deterioration in the quality of restructured advances. (Reserve Bank of India report on trend and progress of Banking in India 2009-2010)

1.6 Opportunities and Challenges of the Banking Sector

In the global competitive business scenario, banks, among other organizations, have been facing many changing challenges caused by globalization, liberalization, technological advancements, and changing customers’ technological-driven expectations (Moreno et al., 2005). Banks have been facing a dynamic business environment that is technologically driven, globally unbounded, and customer oriented. These challenges, among many others, called for extensive search for suitable strategies to be adopted by organizations for growth and survival in the changing and turbulent marketplace (Al-Mansour, 2007).

McKinsey Report (2010) on Indian banking identified four challenges which has to be encountered before banks achieve greater heights. First, the market is seeing discontinuous growth driven by new products and services that include opportunities in credit cards, consumer finance and wealth management on the retail front and investment banking on the general. These
require new skills in sales, marketing, credit and operations. Second, banks will no longer enjoy windfall treasury and gains that the decade long secular decline in interest rates provided, this will expose weaker banks. Third, with increased interest in India, competition from foreign banks will intensify. Fourth, given the demographic shifts resulting from changes in age profile and household income, consumers will increasingly demand enhanced institutional capabilities and service levels from banks.

1.7 Need for the Study

Today banks are operating in a highly competitive scenario; it is pertinent to note that they need to differentiate themselves from each other. They need to have employees who are passionate about their work and strive to take their organization to greater heights.

This study measures employee engagement in three types of banks. The strength and impact of organizational culture and communication on facilitating employee engagement is also measured in the scope of this study. It focuses on organizational drivers which can be channelized to enhance engagement levels of employees.

This study is relevant in the services sector, especially in the banking sector, which did not have any holistic work encompassing constructs of organizational culture, communication and employee engagement.

The study also provides a comparison among co-operative, nationalized and private banks in terms of organizational culture, organizational communication and different dimensions of employee engagement.
The findings and recommendations of the study are for banks in general and for co-operative, nationalized and private banks in particular. It would help banks in these three categories to work constructively towards increasing employee engagement.

1.8 Key Concepts Explained in the Study

1.8.1 Organizational Culture

Organizational culture can be defined as shared perceptions of organizational practices, the concept is similar to organizational climate, which has been typically conceived as employees’ perceptions of observable practices and procedures (Denison, 1996). It is reflected in the manifold ways in which employees perceive, think, act and behave. It forms the glue that holds the organization together and stimulates employees to commit to the organization and to perform. (Glunk, & Maslowski, 2001; Wilderom and Van den Berg 2004).

1.8.2 Organizational Communication

Organizational communication focuses on connecting individual employees, groups and organization as a whole to facilitate realization of common interest and spontaneous cooperation. (Hatch 1964; Clampitt and Downs, 1992). Communication satisfaction implies the affective response to the fulfillment of expectations in message exchange processes and which translates into an enjoyable, fulfilling experience. (Downs & Hazen, 1977; Clampitt and Downs, 1992; Mueller and Lee, 2002).
1.8.3 Employee Engagement

Employee Engagement signifies involvement and identification of an individual with his job. An engaged employee displays vigor, dedication and absorption at work.

1.9 Benefits of the Study

The present study aims at providing a methodology for measuring employee engagement in banks. Banks will be able to ascertain the presence or absence of different dimensions of engagement among their employees. This in turn will enable them to design and introduce unique employee engagement initiatives and interventions for different employee segments.

The study has revealed organizational culture factors of autonomy, external orientation, inter-departmental cooperation, human resource orientation and improvement orientation as being important predictors of employee engagement. By identifying these dimensions and the extent of their presence or absence the banks can take appropriate steps to engage employees.

It has further helped in identifying the impact of organizational integration, personal feedback, supervisor communication, subordinate communication, horizontal communication, media – quality, communication climate and corporate communication as being important organizational communication dimensions as being responsible for shaping employee engagement. These would be pertinent in indentifying gaps in the area of organizational communication, which should be bridged to facilitate employee engagement.
The study also provides a comparison among co-operative, nationalized and private banks in terms of organizational culture, organizational communication and employee engagement parameters.

The analysis of data included in the scope of the study has made it possible to suggest suitable recommendations to the three categories of banks for increasing employee engagement by focusing on the organizational drivers of culture and communication.