“When planning for one year,
there’s nothing better than planting grain,

When planning for ten years,
there’s nothing better than planting trees,

When planning for lifetime,
there’s nothing better than planting men.

Guanzi  (51-497 BC)
CHAPTER I
INTRODUCTION AND OVERVIEW OF THE STUDY

1.1 INTRODUCTION

Human Resource Development has assumed considerable importance in the recent years, be it business organization or a bank or an office, the development of human resource is necessary for its efficient and effective working. In an evolutionary process when developing economy struggles to attain higher levels of living it can hardly over look the need of developing its human resources to meet the bigger and new challenges of raising the quality of the masses.

The concept of HRD deals with the improvement of human quality in general and development of human skills, standards, comprehensions and application in the production enterprises in particular. As such, HRD has become an important programme of all organizations not only for enhancing the production efficiency/ productivity has also to bring about qualitative improvement among the workers at different levels.

In the economic system, banks play a very important role as they have the power of creating credit for the businessmen and general public for various purposes. The Banking Industry was once a simple and reliable business that took deposits from investors at a lower interest rate and loaned it out to borrowers at a higher rate. However deregulation and technology led to a revolution in the banking industry that saw it transformed. Today when banks offer loans & related products at a lower interest rate, it enhances the growth prospects of the economy and vice-versa. This has now become instrumental in the development of World Economy. Banks have become global powerhouses that have created even more complex products that involves risk and securitization in models that
only research scholars can understand. Through technological development, banking services have become available 24 hours a day, 7 days a week through ATMs, online banking and electronically enabled exchanges where everything from stocks to currency can be traded.

At the beginning of the 21st century, the biggest banks in the industrial world have become complex financial organizations that offer a wide range of services to international markets and control billions of dollars in cash and assets. Supported by the latest technology, banks are working to identify new business niches, to develop customized services, to implement innovative strategies and to capture new market opportunities. With further globalization, consolidation, deregulation and diversification of the financial industry, the banking sector has become even more complex.

Technology, deregulation and liberalization have reinforced market competition, locally and internationally. Banks now have significant operations beyond their domestic borders and are handling a large amount of business and millions of non-resident clients across the globe. In the process, large, internationally active financial institutions with complex risk profiles have grown in size. Other domestic banks and institutions are also forging stronger cross-border linkages by acquiring customers abroad. Three related changes were also important.

One: in the past, it was frequently the regulators who directly limited banks’ business and risk-taking and they very often prevented banks from competition. Now banks across various jurisdictions are able to take most of their own decisions and face the consequences. They also have to withstand more competition. These developments have inevitably focused the minds of senior bank managers on the significance of managing risks.
Two: the economic context in which banks operate has changed. There is an increasing emphasis on ‘shareholder value’, which leads banks to focus on improving risk-adjusted profitability rather than simply boosting business volumes. Banks are more aware of risks in their business and of the need to use their scarce capital resources effectively. They constantly develop and seek to improve sophisticated tools for assessing, monitoring and managing risks.

Three: banks now face increased competition from the alternative sources of finance that open capital markets provide.

This means that the countries need to ensure that their banking and financial markets are ready to adapt to a more competitive environment. The modern banking industry has brought greater business diversification. Some banks in the industrialized world are entering into investments, underwriting of securities, portfolio management and the insurance businesses. Taken together, these changes have made banks an even more important entity in the global business community.

1.2 INDIAN BANKING SENARIO

The banking scenario in India has already gained all the momentum, with the domestic and international banks gathering pace. The focus of all banks in India has shifted their approach to 'cost', determined by revenue minus profit. This means that all the resources should be used efficiently to better the productivity and ensure a win-win situation. To survive in the long run, it is essential to focus on cost saving. Previously, banks focused on the 'revenue' model which is equal to cost plus profit. Post the banking reforms, banks shifted their approach to the 'profit' model, which meant that banks aimed at higher profit maximization.
Currently, India has 96 scheduled commercial banks (SCBs), 27 public sector banks (that is with the Government of India holding a stake), 31 private banks (these do not have government stake; they may be publicly listed and traded on stock exchanges) and 38 foreign banks. They have a combined network of over 53,000 branches and 49,000 ATMs. According to a report by ICRA Limited, a rating agency, the public sector banks hold over 75 percent of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively.
Figure 1.1: Scheduled Banking structure in India *

*As included in the Second schedule of the RBI Act., 1934.

Note: Figures in brackets indicate number of banks in each group.

Source: Report on trend and progress of banking in India 2002, RBI, Mumbai
For the past three decades India's banking system has several outstanding achievements to its credit. The most striking is its extensive reach. It is no longer confined to only metropolitans or cosmopolitans of India. In fact, Indian banking system has reached even to the remote corners of the country. This is one of the main reasons of India's growth.

The last decade has seen many positive developments in the Indian banking sector. The policy makers, which comprise the Reserve Bank of India (RBI), Ministry of Finance, related government and financial sector regulatory entities, have undertaken several measures to improve regulation in the sector. The sector now compares favorably with banking sectors in there regions on metrics like growth, profitability and non-performing assets (NPAs). Few banks have established an outstanding track record of innovation, growth and value creation. This is reflected in their market valuation. However, improved regulations, innovation, growth and value creation in the sector remain limited to a small part of it. The cost of banking intermediation in India is higher and bank penetration is far lower than in other markets. India’s banking industry must strengthen itself significantly if it has to support the modern and vibrant economy which India aspires to be. While the onus for this change lies mainly with bank managements, an enabling policy and regulatory framework will also be critical to their success.

As far as the present scenario is concerned the Banking Industry in India is going through a transition phase. The Public Sector Banks (PSBs) which are the base of the Banking sector in India account for more than 78 per cent of the total banking industry assets. Unfortunately they are burdened with excessive Non Performing assets (NPAs), massive manpower and lack of modern technology. On the other hand the Private Sector Banks are making tremendous progress. They are leaders in Internet banking, mobile banking,
phone banking, ATMs etc. As far as foreign banks are concerned they are likely to succeed aggressively in the Indian Banking Industry.

1.3 HISTORY OF INDIAN BANKING

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. They are as mentioned below:

• Early phase from 1786 to 1969 of Indian Banks

• Nationalisation of Indian Banks and up to 1991 prior to Indian banking sector Reforms.

• New phase of Indian Banking System with the advent of Indian Financial & Banking Sector Reforms after 1991.

Phase I

The General Bank of India was set up in the year 1786. Next came Bank of Hindustan and Bengal Bank. The East India Company established Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) as independent units and called it Presidency Banks. These three banks were amalgamated in 1920 and Imperial Bank of India was established which started as private shareholders banks, mostly with Europeans shareholders.

In 1865 Allahabad Bank was established for the first time exclusively by Indians, Punjab National Bank Ltd. was set up in 1894 with headquarters at 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. 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 1100 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 Banking Regulation Act 1949 as the amended Act of 1965 (Act No. 23 of 1965). Reserve Bank of India was vested with extensive powers for the supervision of banking in India as the Central Banking Authority.

During those day’s public had lesser confidence in the banks. As an aftermath deposit mobilisation was slow. Abreast of it the savings bank facility provided by the Postal department was comparatively safer. Moreover, funds were largely given to traders.

Phase II

Government took major steps in this Indian Banking Sector Reform after independence. In 1955, it nationalised Imperial Bank of India with extensive banking facilities on a large scale especially in rural and semi-urban areas. It formed State Bank of India to act as the principal agent of RBI and to handle banking transactions of the Union and State Governments all over the country. Seven banks forming subsidiary of State Bank of India were nationalised in 1960 on 19th July 1969 when major process of nationalisation was carried out. It was the effort of the then Prime Minister of India, Mrs. Indira Gandhi that 14 major commercial banks in the country was nationalised.

Second phase of nationalisation Indian Banking Sector Reform was carried out in 1980 with seven more banks. This step brought 80% of the banking segment in India under Government ownership.
The following are the steps taken by the Government of India to Regulate Banking Institutions in the Country:

• 1949 : Enactment of Banking Regulation Act.

• 1955 : Nationalisation of State Bank of India.

• 1959 : Nationalisation of SBI subsidiaries.

• 1961 : Insurance cover extended to deposits.

• 1969 : Nationalisation of 14 major banks.

• 1971 : Creation of credit guarantee corporation.

• 1975 : Creation of regional rural banks.

• 1980 : Nationalisation of seven banks with deposits over 200 core.

After the nationalisation of banks, the branches of the public sector banks in India rose to approximately 800% in deposits and advances took a huge jump by 11,000%.

Banking in the sunshine of Government ownership gave the public implicit faith and immense confidence about the sustainability of these institutions.

Phase III

This phase introduced many more products and facilities in the banking sector through its reform measures. In 1991, under the chairmanship of M Narasimham, a committee was set up by his name which worked for the liberalisation of banking practices.

As a result of liberalization the country was flooded with foreign banks and their ATM stations. Efforts were being put to give satisfactory service to customers. Phone banking
and net banking was introduced. The entire system became more convenient and swift. Time is given more importance than money. The financial system of India has shown a great deal of resilience. It is shielded from any crisis triggered by any external macroeconomics shock as other East Asian Countries suffered. This can be attributed to a flexible exchange rate regime, high foreign reserves; the capital account not yet being fully convertible and banks and their customers having limited foreign exchange exposure.

1.4 CURRENT BANKING SCENARIO

The new policy shook the Banking sector in India completely. Bankers, till this time, were used to the 4-6-4 method (Borrow at 4%; Lend at 6%; Go home at 4) of functioning. The new wave ushered in a modern outlook and tech-savvy methods of working for traditional banks. All this led to the retail boom in India. People not just demanded more from their banks but also received more.

Currently, banking in India is generally fairly mature in terms of supply, product range and reach—even though reach in rural India still remains a challenge for the private sector and foreign banks. 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 is an autonomous body with minimal pressure from the government. The stated policy of the Bank on the Indian Rupee is to manage volatility but without any fixed exchange rate and this has mostly been true.

Indian banking is stronger on vital banking parameters than other BRIC nations, according to a survey carried out by industry body Federation of Indian Chambers of
Commerce and Industry (FICCI). According to the survey, the Indian banking system has maintained its resilience and continues to provide growth opportunities.

The Indian regulatory system is much better than that of China, Brazil and the United Kingdom (UK). The risk management systems are more advanced than China, Brazil and Russia and credit quality better than China, Brazil, Russia, UK and the US. Moreover, India’s banking technology systems are also superior as compared to Brazil and Russia.

Some of the major strengths of the Indian banking industry, which makes it resilient in the current economic climate highlighted in the survey, were regulatory system (93.75 per cent), economic growth (75 per cent), and relative insulation from external market (68.75 per cent).

However, public, private and foreign banks have reported difficulty in hiring highly qualified youngsters due to high staff cost overheads, poaching of skilled quality staff and high attrition rates.

1.5 HRD IN BANKING SECTOR

Liberalisation has not only triggered changes in the whole economy, including the banking sector, but has also thrown up challenges for banks, in general, and public sector banks, in particular. Whether Human Resource Management (HRM), an important element in the business process evolution, post-liberalisation, has given a strategic telescopic focus is subject to debate.

Various HR issues faced by banks post liberalization are

- changed business positioning to align with the global players and technology to implement the business positioning.
- repositioning of the people in the organisation to effect the changing banking paradigm.

- The real challenge for Indian banks, how to transform into global corporations without losing the positive values and culture that they have developed.

- As most part of the jobs in banks are monotonous/repetitive and routine, the HRD Department has to empower, engage and energise employees to create effectiveness & efficiency through motivation organizational structures, systems & procedures which facilitate of these the need to focus greater attention on these aspects of the industry.

- the emergence of a core and peripheral workforce in many organization has presented new challenges for HR managers of public & private sector organizations that are fast becoming diverse communities for core workers, flexibly employed casual and part-time workers, consultants, contractors & business partners

- Certain rigidities have also developed in HRD within banking system itself because this industry is largely in the public sector.

- New generation private banks entered with clear business positioning (investment, retail, and corporate banking) and to a certain extent lured away the cream of experienced and trained human resource in the respective fields from public sector banks (PSBs) and that too in the lower and middle management levels (that constituted the core customer relations human resource).

- The training establishments need to be actively involved in the total training process starting from the identification of training needs, evaluation of training
effectiveness and the benefits of training to the end-users viz. the internal and external customers.

The core function of HRD in the banking industry is to facilitate performance improvement, measured not only in terms of financial indicators of operational efficiency but also in terms of the quality of financial services provided. Factors like skills, attitudes and knowledge of the human capital play a crucial role in determining the competitiveness of the financial sector. The quality of human resources indicates the ability of banks to deliver value to customers. Capital and technology are replicable but not the human capital which needs to be valued as a highly valuable resource for achieving the competitive edge. The primary emphasis needs to be on integrating human resource management strategies with the business strategy. HRM strategies include managing change, creating commitment, achieving flexibility and improving teamwork.

1.6 ABOUT THE STUDY

The present study was carried out in six banks out of which three are public sector banks and three Indian private sector banks with a purpose to investigate HRD practices that exist in Indian public and private sector banks and their impact on the employees managerial effectiveness and also to correlate the same in order to find out the relationship between them.

Out of the selected public sector banks one of them is largest and oldest bank of India and the other two also have nation wide presence. The selected Indian private sector banks has large number of branches and huge customer network. The study was conducted in Delhi and NCR (National Capital Region) in the selected banks. Sample was collected with employees of managerial level and with minimum three years of experience in the same organization. To measure HRD practices and managerial
effectiveness standard questionnaire was used. Later the data was coded and fed into computers using SPSS (Statistical Package for Social Sciences) as software for data analysis. The collected data was processed and analyzed with the help of SPSS package, Descriptive Analysis, Inferential Analysis, Correlation Analysis, Multiple Regression Analysis were used for proving the hypothesis and predicting the basis of analysis.

1.7 NEED OF THE STUDY

Forward thinking and innovative banks are central to the Indian economy. Banks have revolutionized their way of working. The entire system has become more convenient and swift. Time is given more importance than money. As in the service sector the success of the organization lies in the hands of their work force so is the managing human resource effectively the key to success.

Human resource is the most critical factor for determining the efficiency and effectiveness of an organization because it is the people who decide, when and how to acquire and utilize various resources, including human resource in the best interest of the organization. The ultimate success and survival of the organization will invariably be determined by the quality and the competence of its human resources. Of all the task of management managing the human component is the central and most important task because all else depends upon how well it is done (Likert, 1996).

Human resource holds a key position in any scheme of economic development in any country because the development process is the sum total of productive efforts- guided, managed and executed through human resource. The management and development of human resource holds a key position in the economic development of the country because the real strength of the country lies in the development of human mind and body. Quality of human resource can be greatly improved by enhanced investment in human capital.
HRD is the key factor in the process of growth and development (Verma and Garg, 1996).

The basic purpose of HRD is to contribute to the vital growth of organization as it is instrumental in achieving the organizational goals, which is a means of economic progress of the country.

HRD is a must in any organization that wants to be dynamic and growth oriented to succeed in a fast changing environment. This is possible through the efforts and competence of their human resources. Employees capabilities must continuously be acquired, sharpened and used. An enabling culture is essential for this purpose.

The goals of HRD (Rao and Pereira, 1986) may be given as under:

1. To develop the capabilities of each employee as an individual,

2. To develop the capabilities of each individual in relation to his or her present role or expected future role,

3. The dyadic relationship between each employee and his or her superiors,

4. To develop the team spirit and functioning in every organizational unit,

5. To develop collaboration among different units of organization,

6. To develop organizations overall health and self reviewing capabilities, which in turn, increase the enabling capabilities of individuals, dyads, team and entire organization.

Few banks have a well organized HRD department and implement HRD practices in an effective manner but rest of the banks do not implement these practices effectively.
Literature review shows that number of studies have been done in the field of HRD practices with focus on developed countries. However, there are very few studies that shed some light on recommending strategies for implementation of HRD practices in banking sector in developing countries especially India. Furthermore, despite the enormous attention and importance given to HRD practices in banking sector, there has been little systematic research into the factor influencing, enabling and inhibiting the implementation of HRD practices in banking sector. HRD practices are not properly integrated with managerial effectiveness.

It is against this background that the main aim of this research is formulated and that is to find out the impact of HRD practices on managerial effectiveness in Indian public and private sector banks. By applying various quantitative and qualitative techniques the study is executed.

1.8 RESEARCH QUESTION

1.8.1 General Question
The general question of the study intended to provide the answer to the impact of HRD practices on managerial effectiveness by banking industry. Therefore, it can be summarized as “What are the significant issues of HRD practices that has impact on employees managerial effectiveness in Indian private and public sector banks?”

1.8.2 Specific Questions

Based on the need of the study, the following research questions have been identified which lead to formulation of research objectives.

1) What is the current state of the implementation of HRD practices in Indian private and public sector banks?
2) What are the factors responsible for the implementation of the HRD practices?

3) Is there any difference in the HRD practices followed in the Indian public and private sector banks?

4) What are the enablers and barriers of implementation of HRD practices in Indian public and private sector banks?

5) What is the relationship between the HRD practices and employees managerial effectiveness?

6) Is there any difference in the relationship between the HRD practices and employees managerial effectiveness in Indian public and private sector banks?

7) What are the strategies for effective implementation of HRD practices in banks?

8) What are the strategies for integrating HRD practices and managerial effectiveness?

1.9 OBJECTIVES

In order to address the research problems as outlined in preceding section, the study was designed to accomplish the different research objectives, presented as under:-

1.9.1 General Objective

The general research objective of the study was to explore and analyze the critical issues in the impact of HRD practices on employees managerial effectiveness in Indian public and private sector banks.

1.9.2 Specific Objectives

The present study aims to attain the following objectives
• To investigate the various HRD practices like; Role development, Performance appraisal, Performance counseling, Potential appraisal, Career planning and development, Training, Organizational development in Indian public and private sector bank.

• To bring out the difference in the HRD practices among public sector and private sector banks

• To investigate the impact of HRD practices on managerial effectiveness in public and private sector banks.

• To assess the relationship between HRD practices (Role development, Performance appraisal, Performance counseling, Potential appraisal, Career planning and development, Training, Organizational development) with managerial effectiveness.

• To suggest recommendations and possible interventions in order to improve the existing HRD practices with a view to make organization more effective and responsive.

1.10 ISSUES AND SCOPE OF THE STUDY

Right from the inception of the concept of economic activity, labour has been acknowledged as one of the basic factor of production. From the traditional organizational methods of production to the modern techniques dominated by the management aspects, it has been a long march in the pursuit of developing more perfect techniques, improving the human resources as well has come to assume great importance. Attention has always been paid to education, training and soft skills development among economically active labour force. But as a result of the recognition
of the fact that the human beings are directly or indirectly responsible for acceleration of the pace of socio-economic transformation in the developing countries, the concept of HRD has emerged and come to form an important component of the developmental programmes of developing societies.

Banks have played a significant role in the Indian economy. With the advent of globalization and World trade Organization (WTO) agreements, there is an increasing interdependence between the economies and people of all nations. To bring out this change, HRD is a key enabler which is a driving force for the emergence of a new economy. This transformation has a fundamental implication in the way banking structure operates their business. HRD practices are enabling the banks to carry out their day to day functions in more effective and efficient manner by providing more customer support, more focused and creative in their marketing and creating new business opportunities. HRD practices should be followed extensively and pervasively by the banks but it has been observed that banks have ignored the entry level employees. Khandelwal A.K. (1988) argued that despite several mechanical aids and gadgets available as facilitators for quick and efficient service, banking has remained an essential people’s business i.e. managed by people. There lies a need for well integrated HRD policy in banks. There is a little published literature about the HRD practices in banking sector (public and private sector) and its relationship with managerial effectiveness. Hence there is a strong case for researchers to focus on HRD practices implication on managerial effectiveness by banks.

This research will focus on the relationship between the HRD practices and managerial effectiveness in banks. The research is based on Indian Public and private sector banks only. Besides this the research will also focus on the comparison of HRD practice followed by both the sectors. For the purpose of the research three public sector banks and three private sector banks have been chosen.
1.11 BRIEF OUTLINE OF THE METHODOLOGY

The research is carried out using combination of quantitative and qualitative approach. Detailed literature survey and review on HRD practices in banking sector is done by reviewing articles published in various journals. Based on literature review, gaps in the current research are identified and accordingly research objectives and set of hypotheses are formulated. For quantitative study, a questionnaire based approach is used for that standard questionnaire was used. The sample is collected from private and public sector banks. The collected data is analyzed using Statistical Package for Social Science version 16 (SPSS). Descriptive and inferential statistics is used to test the hypotheses and other related empirical information on HRD practices.

1.12 LIMITATION OF STUDY

1) The study was confined to Delhi and NCR (National Capital Region) and only six banks were taken for the study.

2) Random error in measurement of HRD practices may have influenced the correlation and regression results of the present study.

3) The HRD practices have been selected and as the paradigms of research in terms of rules of interpretations are not established, there may be some other practices, which have not been included and show equal degree of relationship with managerial effectiveness. It is undeniable fact that if other practices were included in the study, the result might have revealed a higher contribution towards managerial effectiveness. This was found to be impossible to be attempted by an individual student investigator in view of resource constrains and time.
1.13 CONCLUDING REMARKS

HRD in banking sector has been undertaken so that an appropriate strategy is worked out for managerial effectiveness among bank employees. All this is possible if the bank personnel are able to enhance their inbuilt capacities and capabilities, the good interpersonal relationship is maintained in the bank and an atmosphere of trust and confidence is created. Therefore, the present study has been undertaken to examine the impact of HRD practices on employees managerial effectiveness in public and private sector banks to take this as a base for the formulation of the needed intervention.

This chapter presents a brief overview of HRD concept, banking scenario in general, Indian banking scenario, evolution of Indian banking, research question, research objective, need of the study, scope, significance and research methodology. Concepts and review of literature related to HRD and managerial effectiveness is discussed in chapter II.