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298


HUMAN RESOURCE MANAGEMENT PRACTICES IN MULTINATIONAL COMPANIES- A CASE STUDY IN INDIAN IT INDUSTRY

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ABSTRACT

Out of the fundamental areas of management, Human Resource Management is adjudged as the most important area. In the management of four M's, Money, Materials, Machines and Men – it is needless to believe, the obvious point, that considering the nature of men. Therefore, in essence we can assert that human resource alone can take care of goals of an enterprise. If a company is economically successful, it means, the management is able to manage human resource successfully. Managing human resources does not mean maintain productivity of human beings but also to maintain high degree of morale and satisfaction of those concerned with it. The main object of this paper is to study Human Resource Practices in Indian IT Companies and also to compare HR Practices in CMM level 5 certified companies with the help of Cross-Case Matrix Methodology. The sample companies for the study are TCS, Infosys, Wipro and HCL Technologies. The main sources of data for the study consist of both primary and secondary sources. The major findings of this study are major problems faced by HR Personnel in IT industry are recruitment and retention, training challenges, career development and employee retention.

Keywords: Employee Training, Employee Retention, Human Resource Management, Performance Appraisal, Recruitment and Selection.
INTRODUCTION

The software industry has come a long way. And like all big events of history, it happened part by design and part by accident. In the 70s, not many people in India understood the word "software" and there was no separate software industry. Throughout the 70s, multinationals like IBM and ICL (UK) were the largest providers of hardware to the industry—and it came bundled with the operating systems and a few basic packages. Larger enterprises—including the Indian defense and public sectors—which needed customized applications, had their own teams that did everything from installing systems to writing software.

The information technology sector has been playing a key role in fuelling the Indian economic performance which has been stellar without robust GDP growth. India's total IT industry's share in the global market stands at 7% in the IT segment, the share is 4% while in the ITES space, the share is 2%. The industry is dominated by large integrated players consisting of both Indian and International service providers. During the year, the share of Indian providers went up to 65-70% due to the emerging trend of monetization of captives. MNCs however continued to make deeper inroads into the industry and strengthened their Indian delivery centers during 2008.

Over the last few years, India has established itself as a destination of choice. While cost is not unimportant, other factors have become increasingly vital. These include quality, customer services, time-to-market, reliability and security features like data protection, respect for intellectual property rights and network security. New growth areas have emerged like Knowledge Process Outsourcing (KPO), remote infrastructure management, product engineering services and R&D services. Growth has given rise to fresh challenges on many fronts, particularly in the areas of human resources and infrastructure.

1 REVIEW OF LITERATURE

This section covers the relevant literature related to Human Resource Management, the evolution of Human Resource management (HRM), the theoretical foundation of SHRM, the approaches to SHRM, the role of HRM and its people, and the implementation of HR strategy.

1.1 The Evolution of HRM

There are many different perspectives, among HRM scholars when describing the route the HRM movement has taken from the past to the present. However, it can be said that the main discussions lie in the transition from personnel management to HRM. Schuler and Jackson (1999) claim that the evolution of HRM can be divided into two stages only; the first from personnel management to HRM, and the second from HRM to SHRM. Other scholars (Baird & Meshoulam, 1984; Ehrlich, 1997; Langbert & Friedman, 2002; Nankervis, Compton, & Baird, 2008; Torrington, 1989) provide other perspectives on this route of evolution, which are also useful to re-trace the development of HRM.

Baird and Meshoulam (1984) identify the development of HRM by characterizing certain HR activities as representing each stage of the development. These five stages allow for various HR practices, depending on the requirements of the organization. The five stages range from basic HR, functional growth, controlled growth, functional integration, through to cross-functional integration. The complete stages and their characteristics can be seen in table 1.
Table 1 Five Stages of HRM

<table>
<thead>
<tr>
<th>Stage</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Basics</td>
<td>Focusing on paying, hiring and firing people</td>
</tr>
<tr>
<td>2. Functional Growth</td>
<td>• Have programs for recruitment, compensation and benefits, affirmative action, labour relations, training and development, etc.</td>
</tr>
<tr>
<td></td>
<td>• Lack line in management involvement</td>
</tr>
<tr>
<td>3. Controlled Growth</td>
<td>• HR programs and activities being evaluated</td>
</tr>
<tr>
<td></td>
<td>• HR programs are focused on the organization’s needs</td>
</tr>
<tr>
<td></td>
<td>• Line managers are aware of the HR programs</td>
</tr>
<tr>
<td></td>
<td>• Programs are often specialized and decentralized</td>
</tr>
<tr>
<td>4. Functional Integration</td>
<td>• HR programs are integrated</td>
</tr>
<tr>
<td></td>
<td>• Programs are related to problems areas rather that specialized functions</td>
</tr>
<tr>
<td></td>
<td>• Involved in organizational development, productivity improvement, change and planning</td>
</tr>
<tr>
<td>5. Cross- Functional Integration</td>
<td>• HR programs are fully integrated into the plans; and activities of other corporate areas such as marketing, finance, production, etc.</td>
</tr>
<tr>
<td></td>
<td>• Line managers become the driving force behind HR programs</td>
</tr>
<tr>
<td></td>
<td>• Corporate HR function responsible for development, policy and strategy</td>
</tr>
<tr>
<td></td>
<td>• A total evaluation system determines the effectiveness of HR practices</td>
</tr>
</tbody>
</table>

(Source: Baird & Meshoulam, The HRS matrix: Managing the HR function strategically, 1984)

From another perspective, Torrington (1989) describes that a major shift of direction in the HRM development is moving away from the traditional of personnel management on conciliation, propitiation, and need to motivate employees as a potentially uncooperative cost, to seeing employees as a benefit. The new direction of HRM is that people need less goading and supervision, but should be given more scope and autonomy; people should not be seen as a cost, but as an asset in which to invest to add their inherent value. Torrington (1989) provides six main stages of evolution from the nineteenth century to the present that track this development. The first stage was the social reformer, next was the acolyte of benevolence, then the humane bureaucrat, followed by the consensus negotiator, the organization man, and the manpower analyst.

1.2 From Personnel Management to HRM

Guest (1987) identifies six factors relating to the transition from personnel management to HRM, (1) the search for competitive advantage through better utilization of HR, (2) models of excellence, (3) the failure of personnel management in promoting the potential benefits of effective management of people, (4) the decline in trade union pressure, (5) changes in the workforce and the nature of work with better education and the demand of more flexible jobs, and (6) the availability of new models. These six factors, individually or together, have motivated scholars and practitioners to promote and adopt new and better models for managing people.

To demonstrate the key differences between personnel management and HRM, Guest (1987) provides a comparison model that can be seen in table 2.
Control system
Employee relation perspective
Preferred structures/systems
Roles
Evaluation criteria

Table 1 Stereotypes of Personnel Management and HRM

<table>
<thead>
<tr>
<th></th>
<th>Personnel Management</th>
<th>HRM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time and planning</td>
<td>Short-term, reactive, ad hoc, marginal</td>
<td>Long-term, proactive, strategic, integrated</td>
</tr>
<tr>
<td>Psychological contract</td>
<td>Compliance</td>
<td>Commitment</td>
</tr>
<tr>
<td>Control system</td>
<td>External control</td>
<td>Self-control</td>
</tr>
<tr>
<td>Employee relation</td>
<td>Pluralist, collective, low trust</td>
<td>Unitarist, individual, high trust</td>
</tr>
<tr>
<td>Preferred structures</td>
<td>Bureaucratic/mechanistic, centralist, formal defined roles</td>
<td>Organic, devolved, flexible roles</td>
</tr>
<tr>
<td>Roles</td>
<td>Specialist/professional</td>
<td>Largely integrated into line management</td>
</tr>
<tr>
<td>Evaluation criteria</td>
<td>Cost-minimization</td>
<td>Maximum utilization (human asset accounting)</td>
</tr>
</tbody>
</table>

(Source: Guest, Human resource management and industrial relations, 1987, p. 507)

Contrasting the characteristics in this table shows that HRM provides clearer direction for managing people. However, Guest (1987) warns this just a generalization: "Implicit in the contrasting stereotype is an assumption that human resource management is "better". However this fails to take account of variations in context which might limit its effectiveness. For example in public service bureaucracies conventional personnel management might more successfully contribute to the achievement of organizational goals" (Guest, 1987, p. 508).

Although there is considerable evidence that HRM is distinctive from personnel management, Guest (1987) identifies three different ways to operationalize this, (1) simply re-title personnel management with HRM without changing the roles and contents, (2) use HRM to re-conceptualize and re-organize the roles of personnel and describing the new role of the personnel department, and finally (3) offering a new approach to manage people.

Legge (1995) suggests the transition from personnel to HRM falls into three criteria: (1) a shift of focus from human resource processes and procedures to the development of HR and development skills for managers and their teams. (2) HRM operates proactively with a focus on developing core business, not merely supporting it, and (3) HRM will generate an emphasis on defining and shaping organizational culture.

Moreover, Legge (1995) analyses the similarities and differences between personnel and HRM. As a result, he identifies four fundamental similarities, which are, an emphasis on the importance of integration, linking employee development with organizational goals and achievements, ensuring the principle of the right people in the right job, and distributing people management to line managers. In a study, he found three differences between personnel and HRM: (1) the focus of activity: personnel management activities are performed on subordinates by manager, while HRM pays more attention to the management of managers; (2) the role of line managers: ones role is the implementation of personnel procedures whereas in HRM they are responsible for devising and driving a business oriented HR strategy; (3) perception about organizational culture: culture is a central element in HRM models but not in personnel management models.

1.3 The Foundation of SHRM

SHRM is defined as the linking of HR functions with business (organizational) strategy in order to improve business performance and develop an organizational culture that fosters innovation.
and flexibility (Lengnick-Hall, Lengnick-Hall, Leticia, Andrade, & Drake, 2009; Truss & Gratton, 1994; Tyson, 1997). More detail is provided in the following two definitions:

"Strategic human resource management is largely about integration and adaptation. Its concern is to ensure that: (1) human resource management (HR) is fully integrated with the strategic needs of the firm; (2) HR policies cohere both across policy areas and across hierarchies; (3) HR practices are adjusted, accepted, and used by line managers and employees as part of their everyday work" (Schuler, 1992).

"We can thus most usefully define an organization’s human resourcing strategy as the general direction followed by an organization in how it secures, develops, retains and, from time to time, dispenses with the human resources it requires to carry out work tasks in a way that ensure that it continues successfully into the long term. And, thus ‘strategic human resourcing’ is to be understood as the establishing of principles and the shaping of practices whereby the human resources which an organization, seen as a corporate whole, requires to carry out work task that enable it to continue successfully in the long term" (Leopold, Harris, & Watson, 2005).

According to Guest (1989), the key difference between HRM and strategic HRM is how organizations integrate strategic decisions into the HRM policies and practices to cope with the environment. In the strategic HRM perspective, employees are considered a strategic resource that should be employed collectively with other resources (e.g. patents, reputation) to enhance organizational success (Barney, 1991).

There is a general consensus that studies from Michigan Business School (Devanna, Fombrun, & Tichy, 1984; Tichy, Fombrun, & Devanna, 1982) and Harvard Business School (Beer, Spector, Lawrence, & Mills, 1984) were the pioneers of SHRM study. The Michigan model emphasizes the necessity of a tight fit between business strategy, organizational structure and HRM, and acknowledges these are also influenced by economic, political, and cultural forces. The model underlines the deployment of HRM is to achieve business objectives. Accordingly, this model recognizes that various styles in managing people depend on the organizational context and assumes that everyone in the organization should have the same orientation with the purpose of achieving organizational goals.

1.4 The Role of HRM in the Organization

Historically, HR functions were not recognized as strategic partners (Brockbank, 1999; Lawler, 1995; Lawler & Mohrman, 2003), and the HR function identified as an administrative function, with the primary roles of cost control and administrative activities (Lawler, Cohen, & Chang, 1993; Ulrich, 1997a). Because of the rapid changes in the business environment, globalization of the economy, intensive deployment of information technology, and increasing complexity, modern organizations have been converging to support HR becoming a more strategic partner (Brockbank, 1999; Lawler & Mohrman, 2003; Ulrich, 1997a). Accordingly, it is necessary that the HRM department move beyond an operational focus into a strategic role (Schuler, 1994).

Many studies across various countries indicate that HRM’s status has increased in the company hierarchy and thus plays a more strategic role (Camuffo & Rosta, 1993; Gunnigle & Moore, 1994; Jaap, 1996; Saborido, Rendon, & Castro, 1992; Siranni, 1992; Teagarden, Buttler, & Von Glinow, 1992)

Early studies investigating the role of HRM can be categorized into two streams, either reactive or proactive (Golden & Ramanujam, 1985). The Reactive group (Ferris, Schellenberg, & Zammuto, 1984; Smith, 1982a; Walker, 1980; 1981) emphasizes organizational strategy is the driving force to determine HR strategies and policies. Hence, this group believes that the focal role of a HR department is to ensure that HR strategies and activities align with organizational objectives. The second stream, the proactive group (Alpander & Botter, 1981; Dyer, 1984; 1983; 1984b; Dyer &
Heyer, 1984) Tichy, (1982) recommends that HR be involved in the strategic formulation process. This means HR departments should be active players in strategy formulation.

Within these streams, Golden and Ramamujam (1985) promoted four distinctive roles for HRM in organizations: the administrative linkage, a one-way linkage, a two-way linkage, and an integrative linkage. In the administrative linkage HR deals with day-to-day or routine administrative roles such as payroll, absenteeism, etc. In a one-way linkage HR translates organizational strategies into HR strategies and policies, and the strategic formulation processes exist without HRM input. In the two-way linkage HR plays a dual function in formulating and implementing organizational strategies, although it is not involved in strategic decision making. With the integrative linkage, HR participates throughout the strategic formulation and decision process and also plays an integral role in developing and implementing the firm’s competitive strategy. In this role, HRM is a vital part of senior management and an effort is made to integrate employee needs and business objectives to meet long-term organizational goals.

2 RESEARCH DESIGN AND METHOD

2.1 Need for the Study

It's no secret that business success today revolves largely around people, not capital. This is of great significance especially in 'people businesses' like software companies with relatively high people costs and low capital costs. According to Barber & Strack, (2005) people businesses are those companies with relatively high employee costs, a high ratio of employee costs to capital costs, and limited spending on activities, such as R&D aimed at generating future revenue. The question of where and how value is being created or squandered could be identified in people-intensive businesses by looking into metrics of productivity of people rather than of capital.

The critical resources are employees a software company hires, motivates and retains. While occasionally, the value employees create in some software companies does take the form of intangible assets like intellectual property, brands, and the like, most employees in people businesses like IT services and products concentrate more on creating short-term value directly for customers, month for month and year for year, without the intermediary step of creating an intangible asset.

2.2 Objectives of the study

1. To study Human Resource Practices in CMM Level 5 certified Indian IT Companies.
2. To compare selected HR practices of selected IT Companies with the help of Cross-Case Matrix

2.3 Hypothesis of the Study

H1: There is no statistically significant difference among selected IT companies with regard Recruitment and Selection process.
H2: There is no statistically significant difference among selected IT companies with regard Training and Development Strategies.
H3: There is no statistically significant difference among selected IT companies with regard Career Planning Development.
H4: There is no statistically significant difference among selected IT companies with regard Performance Appraisal System.
H5: There is no statistically significant difference among selected IT companies with regard Employee Retention Strategies.
2.4 Cross-Case Analysis

As this study is conducted on CMM Level 5 certified Companies and is multi-company research work, the 'Cross-case Analysis' method is found more suitable to find the facts (Four CMM Level 5 Companies are taken for the study). In the first stage cases are developed, with the help of the data from interview and secondary data schedule of various companies. Later the cases are analyzed through 'Cross – Case Analysis' by developing Cross Case Matrices. Finally the employee opinions are taken to arrive at conclusions and suggestions.

2.5 Sources of Data

The study is mainly based on primary data. The secondary data is used to supplement the primary data. The main source of primary data is collected through Interviewing HR personnel with the help of interview schedules and Collection of data from employees through opinions schedules. The Secondary data is collected through three approaches; A separate secondary data is administered to gather company related data from all four companies, referred journals, magazines, newspapers and text books and Internet is also used to collect secondary data from various websites.

3 ANALYSIS AND IMPLICATION

From the table 3 it is observed that in TCS recruitment is carried out through both internal and external sources. The internal sources are Transfer, Promotions and upgrading and external sources are Press Advertisement, Educational Institutions, Placement agencies, Outsourcing, Employee referrals, Walk-in and E-recruitment.

Infosys also gives equal importance for both internal and external sources of recruitment. The internal sources are Transfer, Promotion, Upgrading and external sources are Press Advertisement, Educational Institutions, Placement agencies, Outsourcing, Walk-in, and E-recruitment.

Wipro Company also focus on both internal and external sources for recruitment main internal sources are Transfer, Promotion, Upgrading and external sources are Press Advertisement, Educational Institutions, Placement agencies, Outsourcing, Employee referrals, Walk-in, E-recruitment.

In HCL Technologies Ltd the internal sources are Transfer, Promotion, Upgrading and external sources are Press Advertisement, Educational Institutions, Placement agencies, Outsourcing, Employee referrals, Walk-in, E-recruitment.

<table>
<thead>
<tr>
<th>Sno</th>
<th>Name of the Company</th>
<th>Method of Recruitment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Internal</td>
</tr>
<tr>
<td>1</td>
<td>TCS</td>
<td>Transfer, Promotion, Upgrading</td>
</tr>
<tr>
<td>2</td>
<td>Infosys</td>
<td>Transfer, Promotion, Upgrading</td>
</tr>
<tr>
<td>3</td>
<td>Wipro</td>
<td>Transfer, Promotion, Upgrading</td>
</tr>
<tr>
<td>4</td>
<td>HCL Technologies Ltd</td>
<td>Transfer, Promotion, Upgrading</td>
</tr>
</tbody>
</table>
Table 4 provides information relating to selection process and steps involved. It is inferred that there are common steps in selection process of majority of Indian IT companies. The stages of selection in IT companies are Screening Interview, Application Blank, Selection Test, Selection Interview, Referral Check and Hiring Decision.

**Table 4 Cross-Case Matrix for Selection Process**

<table>
<thead>
<tr>
<th>Sno</th>
<th>Name of the Company</th>
<th>Selection Process</th>
<th>Employee Referral Scheme</th>
<th>Reward for Employee referral</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>TCS</td>
<td>Screening Interview, Application Blank, Selection Test, Selection Interview, Referral Check, Hiring Decision</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>2</td>
<td>Infosys</td>
<td>Screening Interview, Application Blank, Selection Test, Selection Interview, Referral Check, Hiring Decision</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>3</td>
<td>Wipro Technologies Ltd</td>
<td>Screening Interview, Application Blank, Selection Test, Selection Interview, Referral Check, Hiring Decision</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>4</td>
<td>HCL Technologies Ltd</td>
<td>Screening Interview, Application Blank, Selection Test, Selection Interview, Referral Check, Hiring Decision</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

The factors that are taken for the analysis are focus of training programs, duration of the training programs, frequency of the training programs, Human Resource Development and T&D Personnel. At TCS both the technical and behaviour training programs are given equal importance. The training programs will be conducted for the employees before he/she joins the company, before every new project and also there will be some training programs based on the requirement of the employees. The programs range from half day to one month, minimum of four working days a year will be provided for every employee after setting an annual training calendar. For the human resource development, the company provides training in the areas of Leadership, communication skills, group behaviour. At TCS there are 80 members of training and development who will be actively working for the enhancement of skills in employees.

Infosys also gives equal importance for both technical and behavioral aspects. The training will be provided before joining the company and before every new project. The training programs will be between one week to two months. In the behavioral training programs the factors that are covered are personality and leadership. There are 50-60 members are working for the development of both technical and social skills of the employees.

Wipro Technologies Ltd focuses both technical and behavioral programs. Company is giving more importance to the technical skills in the training programs. There will be training for every project. The programs range from One day to two months and for the development of human resources, all required behavioral training program would be provided.

HCL Technologies Ltd also gives more weightage to the technical aspects in the training Programs. Along with the initial training programs there will be project-training programs. In the HR development the Behavioral training programs focused more, there are 60-70 employees who are working in training and development activities in the company.
Table 5: Cross-Case Matrix - Training Activities

<table>
<thead>
<tr>
<th>SNO</th>
<th>Name of the Company</th>
<th>Type of Focus</th>
<th>Duration of the Training</th>
<th>Frequency of the Training</th>
<th>HR Development Programs</th>
<th>T &amp; D Personnel</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>TCS</td>
<td>50</td>
<td>Half day to one month (4 days a Year)</td>
<td>Before joining, before every project and need based</td>
<td>Leadership, communication skills, group behaviour</td>
<td>70-80</td>
</tr>
<tr>
<td>2</td>
<td>Infosys</td>
<td>50</td>
<td>One week to two months</td>
<td>Before every project</td>
<td>Personality and leadership</td>
<td>60-70</td>
</tr>
<tr>
<td>3</td>
<td>Wipro Technologies Ltd</td>
<td>60</td>
<td>One day to two months</td>
<td>For every project</td>
<td>Behavioral training programs</td>
<td>50-50</td>
</tr>
<tr>
<td>4</td>
<td>HCL Technologies Ltd</td>
<td>60</td>
<td>One month</td>
<td>Initial and project</td>
<td>Behavioral training programs</td>
<td>60-70</td>
</tr>
</tbody>
</table>

From the table 6 it is inferred that almost all Indian Companies have the common format for training the personnel. The commonly used methods are Computer Based Training, Internet Based Training, Lecture Labs, On-the-job Training, Mentoring, Coaching, and Job Rotation.

Table 6: Cross-Case Matrixes - Format for Training Programs

<table>
<thead>
<tr>
<th>SNO</th>
<th>Name of the Company</th>
<th>Training Programs formats</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>TCS</td>
<td>Computer Based Training, Internet Based Training, Lecture Labs, On-the-job Training, Mentoring, Coaching, Job Rotation</td>
</tr>
<tr>
<td>2</td>
<td>Infosys Technologies Ltd</td>
<td>Computer Based Training, Internet Based Training, Lecture, On-the-job Training, Mentoring, Coaching</td>
</tr>
<tr>
<td>3</td>
<td>Wipro Technologies Ltd</td>
<td>Computer Based Training, Internet Based Training, Lecture Labs, On-the-job Training, Mentoring, Coaching, Job rotation</td>
</tr>
<tr>
<td>4</td>
<td>HCL Technologies Ltd</td>
<td>Internet Based Training, Lecture Labs, On-the-job Training, Mentoring, Coaching, Job rotation</td>
</tr>
</tbody>
</table>

The results in table 7 depicted the major HR Challenges faced by Indian IT companies for training the personnel are Schedule, Cost, Rapid changes, Trained Trainer, Quality of Content, Certification of Training course, Effective Training Evaluation and Post Training Support.

Table 7: Cross-Case Matrix for HR Challenges in IT Training

<table>
<thead>
<tr>
<th>SNO</th>
<th>Name of the Company</th>
<th>HR Training Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>TCS</td>
<td>Schedule, Cost, Rapid changes, Trained Trainer, Quality of Content, Certification of Training course, Effective Training Evaluation, Post Training Support</td>
</tr>
<tr>
<td>2</td>
<td>Infosys Technologies Ltd</td>
<td>Schedule, Cost, Trained Trainer, Quality of Content, and Certification of Training course, Effective Training Evaluation, Post Training Support</td>
</tr>
<tr>
<td>3</td>
<td>Wipro Technologies Ltd</td>
<td>Schedule, Cost, Rapid changes, Good Infrastructure, Trained Trainer, Quality of Content, Certification of Training course, Effective Training Evaluation, Post Training Support</td>
</tr>
<tr>
<td>4</td>
<td>HCL Technologies Ltd</td>
<td>Cost, Rapid changes, Good Infrastructure, Trained Trainer, Quality of Content, Certification of Training course, Effective Training Evaluation</td>
</tr>
</tbody>
</table>
The information relating to performance appraisal system of Indian IT Companies are presented in the table 8 from this it is inferred that in TCS the appraisal system is very effective they allow for self-appraisal by the employee. The others who appraise the performance of the employee are reporting manager, reviewer and the level boss. In the process of appraisals the company looks into all the key result areas. There will be annual appraisal reports along with the project appraisals. The communication of reports to the employee will be through their immediate superiors. At TCS the outcomes of performance appraisal reports will be considered in all the future decisions that are related to employee’s growth.

The people, who perform performance appraisals at Infosys Technologies Ltd, are the team leaders, project managers and the self. They look at the completion of assigned works. At Infosys Technologies Ltd there will be annual and project appraisals and they will be directly communicated to all the employee the consideration of appraisal reports on future related decisions is maintained by the management without missing.

Wipro Technologies Ltd has got its own methodology in the appraisal system. The managers and project heads will evaluate the performance of all the employees. The technical, behavioral competencies and results will be appraised in performance appraisal. There will be only annual appraisals at this company. The report will be sent to the employees. The communication of the reports will be through down the level – finally to the employee. Company considers all the finding of performance appraisals in the management of Human resource.

At HCL Technologies Ltd the performance will be appraise by project managers and HR managers. In the appraisals systems mainly job completion and group behaviour of the employee will be considered. There will be only annual appraisals at this company. The report will be sent to the poor performers for managing their problem areas. The communication of the reports will be through down the level–finally to the employees. Company considers all the findings of performance appraisals in the future decisions.

<table>
<thead>
<tr>
<th>SNO</th>
<th>Name of the Company</th>
<th>Who Appraise</th>
<th>What is Appraised</th>
<th>Frequency of Appraisals</th>
<th>Communicating the Reports</th>
<th>Consideration of the Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>TCS</td>
<td>Self-reporting managers, reviewer and level boss</td>
<td>Key result areas</td>
<td>Annual cum project appraisal</td>
<td>Through their immediate boss</td>
<td>Yes in all future decisions</td>
</tr>
<tr>
<td>2</td>
<td>Infosys Technologies Ltd</td>
<td>Team leader, project managers and self</td>
<td>Completion of assigned work</td>
<td>Annual and project appraisal</td>
<td>Directly through employees</td>
<td>Yes in all future decisions</td>
</tr>
<tr>
<td>3</td>
<td>Wipro Technologies Ltd</td>
<td>All related managers and Heads</td>
<td>Technical, behavioral competencies and results</td>
<td>Yearly</td>
<td>Down the level to the employees</td>
<td>Yes</td>
</tr>
<tr>
<td>4</td>
<td>HCL Technologies Ltd</td>
<td>Project manager and HR Managers</td>
<td>Job completion and group behaviour</td>
<td>Every year</td>
<td>Report will be sent to the poor performers</td>
<td>Yes</td>
</tr>
</tbody>
</table>

The table no 9 presented information relating to various career development and management strategies adopted by Indian IT Companies for retention of employees. The major focus of career development strategies are succession planning, formal Mentoring, Lateral moves, cross-functional training, formal education and retirement preparation.
The matrix in table no 10 is focused on Employee Retention strategies in IT industry. The problem of employee attrition are handled with the help of Competitive pay benefit, Good working conditions, Advancement and growth opportunities, Work life balance, Challenging work, Autonomy and Succession Planning.

### Table 10 Cross-Case Matrix for Employee Retention Strategies

<table>
<thead>
<tr>
<th>S.No</th>
<th>Name of the Company</th>
<th>Retention Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>TCS</td>
<td>Competitive pay benefit, Good working conditions, Advancement and growth opportunities, Work life balance, Challenging work, Autonomy, Succession Planning.</td>
</tr>
<tr>
<td>2</td>
<td>Infosys Technologies Ltd</td>
<td>Competitive pay benefit Advancement and growth opportunities, Work life balance, Challenging work, Autonomy</td>
</tr>
<tr>
<td>3</td>
<td>Wipro Technologies Ltd</td>
<td>Competitive pay benefit, Advancement and growth opportunities, Challenging work, Autonomy</td>
</tr>
<tr>
<td>4</td>
<td>HCL Technologies Ltd</td>
<td>Competitive pay benefit, Good working conditions, Advancement and growth opportunities, Work life balance, Challenging work, Autonomy, Succession Planning.</td>
</tr>
</tbody>
</table>

### 4 CONCLUSION

Under present market forces and strict competition, the software companies are forced to be competitive, software companies must seek ways to become more efficient, productive flexible and innovative under constant pressure to improve results. The traditional ways of gaining competitive advantage have to be supplemented with organizational capability i.e. the firm ability to manage people. Organizational capability to relate to hiring and retaining competent employees and developing competencies through effective human resource management practices.

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THE MOTIVATIONAL FACTORS AND JOB SATISFACTION: A STUDY ON SELECTED PUBLIC AND PRIVATE SECTOR BANK EMPLOYEES IN KADAPA DISTRICT, ANDHRA PRADESH

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ABSTRACT

Job satisfaction is closely related to the gratification of needs. It is composed of effective cognitive and behavioral elements. These elements vary in their intensity and consistency from one individual to another. Thus, job satisfaction is the satisfaction derived from any pursuit directed by the process of fulfillment of needs.

In this study an investigation is made to study the motivational factors and job satisfaction of selected bank employees. This study is based on Harold Koontz Need-Want-Satisfaction Model and Herzberg's Motivation-Hygiene Theory. These researches investigate motivational factors that affect the job satisfaction and weighting of motivational factors which are considered important at work. The collected data are tabulated, coded and analyzed with the help of SPSS (17 version). The principal statistical tools used for data analysis consist of both descriptive and inferential statistics among Mean, Standard Deviation, T-Test were used. The investigation results reveal that there is a significance means differences exist among public and private sector bank employees with regard to various motivational factors.

Keywords: Harold Koontz Need-Want-Satisfaction Model, Herzberg’s Motivation-Hygiene Theory, Job Satisfaction.
INTRODUCTION:

Satisfaction in work/job to a large extent is the perceived relationship between what one expects and obtains from one's job and how much importance or value attribute to it. If a person receives what he expects from the job, naturally the work he performs gives him pleasure and satisfaction. On the other hand, if a person is unable to fulfill his expectations from the job, dissatisfaction creeps in. Low job satisfaction is a sign of deterioration in the efficiency of work organization. In its sinister forms, it lurks behind wild cat strike, slow downs, absenteeism and employee turnover. It may also be a part of grievances, low productivity, disciplinary problems and other organization difficulties. On the other hand, high job satisfaction of employees is a happy sign for the employer for it is connected with those positive conditions which management wants.

LITERATURE REVIEW:

The term job satisfaction has been given different connotation by different authorities on the subject. (Hoppock, 1935), was the first industrial psychologist to provide a logical definition to the concept of "job satisfaction". He defined job satisfaction as "any combination of psychological, physiological and environment circumstances that cause a person truthfully to say, "I am satisfied with my job". According to smith P.C. et al. job satisfaction refers to "feelings or affective responses to facets of the situation, associated with perceived differences between what is expected and what is experienced". (Smith, 1955.) According to (Locke, 1976). "job satisfaction is a pleasurable or positive emotional state resulting from the appraisal of one's job or job experience" (Vroom, 1978) Viewed job satisfaction as the "positive orientation of an individual towards all aspects of the work situation". "The favorability or unfavourability with which employees view their work. It results when there is a fit between job characteristics and wants of employees. It expresses the amount congruence between one's expectations of the job and rewards that the job provides" (Davis, 1977).

According to (Blum, 1968) "job satisfaction is the result of many attitudes possessed by an employee. It is a general attitude which is result of many specific attitudes in three areas namely (i) job factors; (ii) individual characteristics; and (iii) group relations outside the job". Glisson and Durick (1988) reported that worker characteristics predict commitment but play no role in predicting satisfaction and emphasized on job characteristics as determinants of job satisfaction. (Charles glisson, 1988) Nathan et.al, (1991) revealed that significant interaction, interpersonal relations, opportunity to participate and career discussion affected subordinate satisfaction with the organization (Barry R Nathan, 1991).

A U shaped curvilinear association between age and job satisfaction which characterize the form of relationship of the job satisfaction measures (k.michele kaamour and gerald r.ferris, 1989).mediated and interactive associations among prior absenteeism, supervisory style, attitudinal variables, personal characteristics and subsequent absenteeism. They revealed that job satisfaction and absenteeism was negatively related (Stephen J Zaccaro, 1991),role over load, role conflict and non-profitability are negatively and significantly related to job satisfaction (Dhillon, 1991).

Work identification will be affected by several personal-personality, job and organizational variables (Dolke A.M., 1991).level of job satisfaction(dissatisfaction) as a function of the experience of person within the organization (Baldev r sharma, 1991).promotion gap as a significant potential source for job dissatisfaction (Sease, 1992).age correlated significantly with promotion, experience and job satisfaction (Pandy, 1992).promotion correlated positively but moderately with experience and positively and significantly with job satisfaction (Cheri Ostroff, 1992).satisfaction is positively related to productivity and more productive people are more satisfied as a consequence rather than that satisfaction cause productivity (Jeffrey Feffer, 1993).

Job perception of employees will stream from actual condition of work (Johan E.Mathieu, 1993).simple, routine and unchallenging jobs often lead to high employees' dissatisfaction (Davis, 1957). Job enlargement leads to job satisfaction (Biganne, 1964).Employees with the stronger need for growth react more positively to enrich their job than those who had weak needs (Sims, 1974).Identify factors of job satisfaction of workers (Bose, 1951).Test the applicability of Herzberg's two-factor theory (Lahiri, 1967).

Maintenance factors such as job security, company working conditions etc., were satisfiers and motivation to middle level managers (Sawalapurkar, 1968).Job context and job content factors were not independent of each other as a source of employees satisfaction and dissatisfaction (Chowadary, 1966).motivation-hygiene theory is applicable to Indian context (S.Saiyaddin, 1970).motivators contributed significantly more towards satisfaction than hygiene factors in public enterprises, whereas in the case of private sector enterprises motivators contributed significantly more towards the feeling of dissatisfaction than hygiene factors (G, 1972).
RESEARCH METHODOLOGY AND DESIGN:

OBJECTIVES OF THE STUDY:

- To find out the motivational factors that affect the job satisfaction of selected private and public sector bank employees.
- To find out important motivational factors which are considered by public and private sector bank employees.

HYPOTHESIS OF THE STUDY:

H1: There is equal preference of achievement as a motivational factor by public and private sector bank employees.
H2: There is equal preference of recognition as a motivational factor by public and private sector bank employees.
H3: There is equal preference of work itself as a motivational factor by public and private sector bank employees.
H4: There is equal preference of responsibility as a motivational factor by public and private sector bank employees.
H5: There is equal preference of advancement as a motivational factor by public and private sector bank employees.
H6: There is equal preference of interpersonal relations as a motivational factor by public and private sector bank employees.
H7: There is equal preference of supervision as a motivational factor by public and private sector bank employees.
H8: There is equal preference of policy of bank as a motivational factor by public and private sector bank employees.
H9: There is equal preference of working conditions as a motivational factor by public and private sector bank employees.
H10: There is equal preference of personal life as a motivational factor by public and private sector bank employees.

CONCEPTUAL FRAMEWORK:

The conceptual framework for this study is based on Harold Koontz's Need-Want-Satisfaction model and the Herzberg's motivation-hygiene theory. Job satisfaction and dissatisfaction were found to stem from different sources. Certain factors lead to satisfaction when they are present and dissatisfaction when they are absent. In particular, dissatisfaction was associated with condition surrounding the job (e.g., working condition, pay, security, quality of surrounding the job, relation with others) rather than work itself. Satisfaction was associated with the work itself or outcomes directly such as nature of the jobs, achievement in the work, promotion opportunities and chance for personal growth and recognition.

RESEARCH DESIGN:

The study was a project of descriptive nature. The main tool of the research based on self-administered questionnaire. The target population of this research was the selected bank employees in Kadapa District, Andhra Pradesh and stratified random sampling technique were used. The sample size consists of 196 bank employees working in both in public and private banks sector in Kadapa District.

RESEARCH INSTRUMENT RELIABILITY AND VALIDITY:

The self-administered questionnaire were used in this study it is divided into two parts, part-I deals with personal characteristics and part-II consists of 23 questions were used to determine how each public and private sector bank employees perceived the ten motivational factors influencing his or her job satisfaction, question number 23 was specially used for the weighting of the importance of the motivational factors and perceived overall job satisfaction. Questionnaire was constructed as a Likert Scale with five choices from highly satisfied to highly dissatisfy. The instrument was tested for validity and reliability by using Cronbach Alpha Coefficient is .74 points of reliability.

DATA ANALYSIS:

In this research both descriptive and inferential statistics were used among them Frequency, per centage, Mean,
FINDING AND IMPLICATIONS:

The results shows that out of 196 respondents 110 (56.156) are public sector bank employees and rest of 86 (43.9%) are private sector employees, with regard to personal characteristics of sample respondents majority of 170 (86.7%) are male and rest of 26 (13.3%) are female. The mean age of respondents is 38.9 and SD 7.357 the large number of respondents are from sub-staff category 50% (n=98), clerks are 32.7% (n=64) and rest of them are managers 17.3% (n=34) the analysis reveals that the mean experience is 7.30 and SD is 3.33. The respondent are in terms of education qualification are grouped in three categories intermediates 52% (n=102), graduates 43.9% (n=86) and rest of them have post-graduation 4.1% (n=8).

The table No 1 to 10 reveals t-test for ten motivational factors. The results reveal that achievement as motivational factor are equally perceived by both public and private sector employees. It is based on (p value .518>0.005) therefore, we can accept the null hypothesis. For recognition as motivational factors (p value .137>0.005) hence, we accept the second null hypothesis, for work itself (p value .501>0.005), accept null hypothesis, responsibility (p value .026>0.005) therefore, null hypothesis is accepted, for advancement (p value .005<0.005) hence, we can reject the null hypothesis both public and private sector bank employees are not equally perceived advancement as a source of motivation to them. The t-test result for interpersonal relationship (p value .331>0.005) therefore, we can accept the null hypothesis that interpersonal relations is source of satisfaction for both public and private sector employees. For supervision (p value .000<0.005) this result supported the alternative hypothesis supervision is not as a source of satisfaction for them. It is already stated in Herzberg’s two-factor theory, the supervision is under hygiene factor it is not a potential source of satisfaction. For bank policy (p value .779>0.005) null hypothesis is accepted, working conditions (p value .001<0.005) therefore, null hypothesis is rejected this finding is not supported two-factor theory working conditions are also have a considerable influence on job satisfaction, for personal life (p value .479>0.005) therefore, null hypothesis is accepted all the above said t-test are carried out at 5% significance levels.

Table No1: Independent Sample T Test For Achievement As Motivation Factor

<table>
<thead>
<tr>
<th>Motivational Factor</th>
<th>Leven's Test of Equality of Variances</th>
<th>T Test For Equality Of Means</th>
<th>Group Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F</td>
<td>Sig.</td>
<td>T</td>
</tr>
<tr>
<td>Achievement</td>
<td>.327</td>
<td>.568</td>
<td>.648</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>.646</td>
<td>.180.164</td>
<td>.519</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table No. 2: Independent Sample T Test For Recognition As Motivation Factor

<table>
<thead>
<tr>
<th>Motivational Factor</th>
<th>Leven's Test Of Equality Of Variances</th>
<th>T Test For Equality Of Means</th>
<th>Group Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F</td>
<td>Sig.</td>
<td>T</td>
</tr>
<tr>
<td>Recognition</td>
<td>.222</td>
<td>.138</td>
<td>-1.79</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Table No. 3: Independent Sample T Test For Work Itself As Motivation Factor

<table>
<thead>
<tr>
<th>Motivational Factor</th>
<th>Leven's test of equality of variances</th>
<th>T test for equality of means</th>
<th>Group statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>f</td>
<td>Sig.</td>
<td>t</td>
</tr>
<tr>
<td>Work itself</td>
<td>Equal variance assumed</td>
<td>.455</td>
<td>.501</td>
</tr>
<tr>
<td></td>
<td>Equal variance not assumed</td>
<td>-.521</td>
<td>187.96</td>
</tr>
</tbody>
</table>

### Table No. 4: Independent Sample T Test For Responsibility As Motivation Factor

<table>
<thead>
<tr>
<th>Motivational Factor</th>
<th>Leven's test of equality of variances</th>
<th>T test for equality of means</th>
<th>Group statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>f</td>
<td>Sig.</td>
<td>t</td>
</tr>
<tr>
<td>Responsibility</td>
<td>Equal variance assumed</td>
<td>5.005</td>
<td>.026</td>
</tr>
<tr>
<td></td>
<td>Equal variance not assumed</td>
<td>-1.275</td>
<td>190.4</td>
</tr>
</tbody>
</table>

### Table No. 5: Independent Sample T Test For Advancement As Motivation Factor

<table>
<thead>
<tr>
<th>Motivational Factor</th>
<th>Leven's Test Of Equality Of Variances</th>
<th>T Test For Equality Of Means</th>
<th>Group statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>f</td>
<td>Sig.</td>
<td>t</td>
</tr>
<tr>
<td>Advancement</td>
<td>Equal variance assumed</td>
<td>7.923</td>
<td>.005</td>
</tr>
</tbody>
</table>
Table No 6: Independent Sample T Test For Interpersonal Relations As Motivation Factor

<table>
<thead>
<tr>
<th>Motivational Factor</th>
<th>Leven's test of equality of variances</th>
<th>T test for equality of means</th>
<th>Group statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>f</td>
<td>Sig.</td>
<td>t</td>
</tr>
<tr>
<td>Equal variance not assume</td>
<td>1.745</td>
<td>159.465</td>
<td>.083</td>
</tr>
</tbody>
</table>

Table No 7: Independent Sample T Test For Recognition As Motivation Factor

<table>
<thead>
<tr>
<th>Motivational Factor</th>
<th>Leven's test of equality of variances</th>
<th>T test for equality of means</th>
<th>Group statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supervision</td>
<td>f</td>
<td>Sig.</td>
<td>t</td>
</tr>
<tr>
<td>Equal variance not assume</td>
<td>-4.347</td>
<td>193.860</td>
<td>.000</td>
</tr>
</tbody>
</table>

Table No 8: Independent Sample T Test For Policy As Motivation Factor

<table>
<thead>
<tr>
<th>Motivational Factor</th>
<th>Leven's test of equality of variances</th>
<th>T test for equality of means</th>
<th>Group Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy</td>
<td>f</td>
<td>Sig.</td>
<td>t</td>
</tr>
<tr>
<td>Equal variance assumed</td>
<td>4.0818</td>
<td>1.42798</td>
<td>1.3615</td>
</tr>
<tr>
<td>Equal variance not assume</td>
<td>4.1860</td>
<td>1.40178</td>
<td>1.5116</td>
</tr>
</tbody>
</table>

Table No 9: Independent Sample T Test For Working Conditions As Motivation Factor

Table No 10: Important Motivational Factors Perceived By Public Sector Employees (N=110)

<table>
<thead>
<tr>
<th>Motivational Factor</th>
<th>Leven's Test Of Equality Of Variances</th>
<th>T Test For Equality Of Means</th>
<th>Group Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F</td>
<td>Sig.</td>
<td>T</td>
</tr>
<tr>
<td>Working Conditions</td>
<td>Equal Variance Assumed</td>
<td>12.005</td>
<td>.001</td>
</tr>
<tr>
<td></td>
<td>Equal Variance Not Assumed</td>
<td>.422</td>
<td>158.902</td>
</tr>
</tbody>
</table>

Table No 11 shows that weighting of important motivational factors perceived by the public sector bank employees achievement (4.5818), advancement (4.3636), interpersonal relations (4.3636), working conditions (4.0909), policy (4.0818), personal life (4.0545), work itself (3.8909), responsibility (3.6909), recognition (3.5364) and supervision (3.3364) this results shows that there is mix of both motivational and hygiene factors are sources of job satisfaction as well as job dissatisfaction.

Table No 12 reveals the important motivational factors perceived by private sector bank employees achievement (4.4767), interpersonal relations (4.3140), supervision (4.3256), policy (4.1860), personal life (4.1628), advancement (4.0116), work itself (4.0116), working conditions (4.0000), responsibility (3.9767) and recognition (3.9302).

Table No 11: Important Motivational Factors Perceived By Public Sector Employees (N=110)

<table>
<thead>
<tr>
<th>S.No</th>
<th>Motivational Factor</th>
<th>Mean</th>
<th>Std.Deviation</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Achievement</td>
<td>4.5818</td>
<td>1.11192</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Recognition</td>
<td>3.5364</td>
<td>1.43787</td>
<td>9</td>
</tr>
<tr>
<td>3</td>
<td>Work It Self</td>
<td>3.8909</td>
<td>1.67192</td>
<td>7</td>
</tr>
<tr>
<td>4</td>
<td>Responsibility</td>
<td>3.6909</td>
<td>1.65205</td>
<td>8</td>
</tr>
<tr>
<td>5</td>
<td>Advancement</td>
<td>4.3636</td>
<td>4.3636</td>
<td>2</td>
</tr>
<tr>
<td>6</td>
<td>Interpersonal Relations</td>
<td>4.1909</td>
<td>1.57093</td>
<td>3</td>
</tr>
<tr>
<td>7</td>
<td>Supervision</td>
<td>3.3364</td>
<td>1.76758</td>
<td>10</td>
</tr>
<tr>
<td>8</td>
<td>Policy</td>
<td>4.0818</td>
<td>1.42798</td>
<td>5</td>
</tr>
<tr>
<td>9</td>
<td>Working Conditions</td>
<td>4.0909</td>
<td>1.29405</td>
<td>4</td>
</tr>
<tr>
<td>10</td>
<td>Personal Life</td>
<td>4.0545</td>
<td>1.63020</td>
<td>6</td>
</tr>
</tbody>
</table>

Table No 12: Important Motivational Factors Perceived By Private Sector Employees (N=86)

<table>
<thead>
<tr>
<th>S.No</th>
<th>Motivational Factor</th>
<th>Mean</th>
<th>Std.Deviation</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Achievement</td>
<td>4.4767</td>
<td>1.14308</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Recognition</td>
<td>3.9302</td>
<td>1.62184</td>
<td>9</td>
</tr>
</tbody>
</table>
CONCLUSION:

Job satisfaction is a pleasurable or positive emotional state resulting from the appraisal of one's job or job experience. In this study, an investigation is carried out to test the Hypothesis of Herzberg's two-factor theory. The results found that job satisfaction is caused by both motivation and hygiene factors. The important motivational factors perceived by public sector employees are achievement (4.5818), advancement (4.3636), interpersonal relations (4.1909), working conditions (4.0909), policy (4.0818), personal life (4.0545). The perceived important motivational factors by private sector bank employees are achievement (4.4767), interpersonal relations (4.3140), supervision (4.3256), policy (4.1860).

REFERENCES:

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FACE OF HR PRACTICES IN TODAY'S SCENARIO IN INDIAN BANKS

Abstract:

Effective management of human resources play a vital role in sound management of banks as human resource management is a central sub system of modem management system. This truism is well recognized by even market economies of USA, UK, and France etc. Management of human resources, adaptation to any kind of change and effective functioning of banks are possible only when human resources are developed. Thus, HRD facilitated for all round development of banks in addition to allowing them to be dynamic and responsive to the environmental changes. The study on Human Resource Development in Banks, under present economic scenario in the country is essential to understand bank’s present HRD philosophy, practice and outcome with a view to offer suggestions for formulation of right philosophy and practice of HRD in Banks. The present study has been undertaken in view of the absence of systematic studied on the subject. Nationalization has changed the complexion and dimensions of Commercial Banking in India. It helped to hasten the pace of geographical and functional diversification. The new dimensions have placed the varying responsibilities on the shoulders of commercial banks such as expansion of branch offices to unbanked and remote rural areas on a massive scale so as to cover small scale sector, cottage and rural industries, self employed persons, artisans, weaker sections of the society, small traders and other persons of small means. The study covers all the important areas of human resource development in banks. These areas include conceptual clarification about human resource and human resource development in banks, essentials of HRD, the sub-system of human resource development like performance appraisal, training, management development, career planning and development, organization development, participative management, quality circles etc. These primary areas of human resources development will be studied thoroughly to the maximum extent through the means of discussion, interviews, reports, accounts, observations etc.

Key Words: Dimension, conceptual, career planning.
1. INTRODUCTION:

Twenty-first century HR is emerging to uniquely combine activities and processes of human resource management (HRM), human resource development (HRD), and organizational development (OD), three fields that "grew up" distinct from each other. Contributing strategically to organizations demands that HRM, HRD and OD coordinate, partner and think innovatively about how they relate and how they do impacts people and organizations. The primary apprehension of the bank should be to bring in proper integration of human resource management strategies with the business strategies. It should foster cohesive team work and create commitment to improve the efficiency of its human capital. More than operational skills today are banking call for these 'soft skills' to attend the needs and requirement of the customers at the counter. Banks have to understand that the capital and technology-considered to be the most important pillars of banking are replicable, but not human capital, which needs to be viewed as a valuable resource for the achievement of competitive advantage. The long-term vision for India's banking system is to transform itself from being a domestic one to the global level may sound far-fetched at present. To take up this industry to the heights of international excellence requires combination of new technologies, better processes of credit and risk appraisal, treasury management, product diversification, internal control, external regulations and human resources at most. The main challenges faced by Banks in our country are the role played by financial instrumentation in different phases of business cycle, the emerging compulsions of the new prudential norms and benchmarking the Indian financial system against international standards and best practices. There is a need for introduction of new technology, skill building and intellectual capital formation. The most important need in this service industry is naturally the HRD. During the early phase of banking development in India after independence, opportunities for employment of the educated manpower were relatively limited. This sector was the preferred employer for the educated persons in the country in addition to civil services. In recent years, this position has changed dramatically. Certain rigidities have also developed in HRD within the banking system as this system is public sector. Its hierarchical structure gives preference to seniority over performance, and it is not the best environment for attracting the best talent from among the young. How well Challenges are met will mainly depend on the extent to which the bank's leverage their primary assets i.e., HR in the context of the changing economic & business environment. It is expected that the Indian banking and finance system will be globally competitive. For this the market players will have to be financially strong and operationally efficient. Capital would be a key factor in building a successful institution. The banking and finance system will improve competitiveness through a process of consolidation, either through mergers and acquisitions through strategic alliances. Indian Banking system has played a crucial role in the socio-economic development of the country. The system is expected to continue to be sensitive to the growth and development needs of all the segments of the society. Besides practicing HR in different units it is also a mammoth task for the banks to face the central and outer challenges. In different way the HR department sales, finance and manufacture the strategic over time to achieve its ultimate objectives. Monitoring as well as changing the strategy also permits the business to cope up with the current demand.
2. EARLIER STUDIES (Review of Literature):

Human resource development is a process through which employees in an organization are assisted to realize their full potential for their present and future jobs. It involves long term perspective which visualizes change through involvement and ownership of such change by the participants. HRD believes that individual in an organization have unlimited potential for growth and development and that their potential can be built through appropriate and systematic efforts. The abbreviation HRD denoting, "Human Resources development" is creation of western countries; they treat and deal human force as resource. Resources are explored, exploited and discarded after their use. Continuous use of resources make them weak and futile, they decay with time. However, human beings become wiser, stronger and grow from within each challenge / problem encountered. Wisdom and strength in human beings appreciated with time but use of resource always make them weak, futile and depreciate. D.V. Ramana Murthy has discussed in this article on “Human Factor in Banks,” the significance of human factor and trade unions in the banks. S.R. Varde in his paper on “Manpower Planning” at the level of an Indian commercial bank dealt with the aspects like basic structure of manpower planning, linkage of manpower plan to other plans, interrelationship of various manpower functions, objectives of manpower planning in Indian commercial banks, anatomy of manpower plans and techniques of manpower planning. N.R. Seth discussed growth, functioning and progress of trade unions in Indian banks.
P. Subba Rao, have discussed the role of counseling, performance counseling and action planning in his paper on “Bank Branch Manager as a Counselor.” T.V. Rao, in his book on “The HRD Machinery” explained HRD instruments, processes and outcomes, HRD Departments and their tasks, structuring the HRD function, qualities, and competence requirement of HRD managers, developing HRD managers, traps and temptations of HRD managers and HRD instruments. Balader R. Sharma in his study on “Human Resource Management in Banking Industry” studied managerial beliefs, work technology and organizational climate. P. Amsa in his paper “Organization culture base for effective HRM in Banks” studied HRD related areas in brief in addition to various issues related to human resource management. T.P. Raman in his paper on “HRD in State Bank of India” explained the practice of HRD and various techniques of HRD in State Bank of India. His paper is mostly based on his work experience in the bank rather than a study. R. K. Agarwal. In his paper on “HRD” in State Bank of Patiala” explained the objective and structure of HRD department, HRD climate and various techniques of HRD in the Bank. This paper also suffers from the same limitations of the T.P.Raman’s paper. The recent emphasis on human resource management, e.g. Storey (1992), Torrington and Tan Chee Haut (1994), suggests that not only is the management of labour being given more attention, but that the issues discussed are broader and more strategic as well as tactical (see also Wilkinson & Marchington, 1994). Miller (borrowing from Porter (1995) defines strategic human resource management as those decisions and actions which concern the management of employees at all levels in the business and which are related to the implementation of strategies directed towards creating and sustaining competitive advantage. (1987, p.352). Thus, unlike the traditional peripheral function of many personnel managers, the newer style of human resource managers attempts to: ‘relate personnel practices to beliefs, to link each and every process of the recruitment, induction, training, appraisal rewarding of individuals to an overall set of articulated beliefs of organization’ (Hunt, 1984, p.16) Krishna and Rao (1997) carried out a comprehensive empirical study Organizational and HRD Climate in BHEL: An Empirical Study, and found that HRD climate in the organization encouraged middle and senior managers to experiment with new methods and try out creative ideas. Sharma and Pooja Purang (2000) in their study Value Institutionalization and HRD Climate: A Case Study of a Navratna public sector organization, found a positive relationship between value institutionalization and HRD climate in a large public sector organization, meaning thereby that a better and more ethical environment of the organization shall lead to a better HRD climate for the organization.

3. OBJECTIVES OF THE STUDY:
1. To enquire into the HRD philosophy of banks
2. To study the organizational and HRD climate in the banks
3. To enquire into the practices of various HRD techniques, and
4. To study the outcomes of human resource development for the banks, individual employees, groups and the society at large in both private as well as public sector banks. In the fulfillment of these objectives, a close study is made on all important areas of human resource development in Banks. The position prior to nationalization is also studied with a view to appraise the changes better.
4. RESEARCH METHODOLOGY:

It is very difficult to appreciate and understand the human resources development unless recourse is made to the interview method. Interviews and discussions will be organized with the selected representatives of management of various Commercial Banks, Staff Training Colleges, Indian Institute of Banker, Bombay; National Institute of Bank Management, Pune; Indian Bank Association, Bombay; Banking Service Recruitment Boards, Trade Unions and with employees of various commercial banks. A separate questionnaire will be prepared for this purpose to draw upon their rich personal opinions, experiences etc, which cannot find a place in the reports and records. Interviews will also be conducted with the trainees who underwent training and management development programme, their superior, subordinates and peers in order to ascertain the impact of these programmes on job performance and behaviour. Another method that will be adopted for this study is the collection of secondary data from various public sector banks and private sector banks. Various appropriate statistical techniques will be employed for analyzing the data. The statistical analysis and data will be supplemented by the information collected through interviews and personal observation so as to derive effective and meaningful conclusions. The data and information will be collected from various sources. Factual data will be collected from the annual reports of the banks; staff training colleges, house magazines and other records of the banks, reports and other records of the trade unions. The study warrants a number of trips to the head office, regional offices, branch offices and staff training colleges of respondent Public Sector Banks and Private Sector Banks and National Institute of Bank Management, Pune; Indian Institute of Bankers, Bombay; and Indian Banks’ Association, Bombay. During these visits, libraries of all banks and various banking institutions will be used to go through a number of relevant reports and books. In order to study the face of HR practice in today’s scenario in Indian Banks we need to know the challenges which our banking industry is facing.

5. CHALLENGES FACED BY BANKING INDUSTRY:

Here are the ten challenges that the HR function in India faces:

1. The first and foremost challenge that HR function in India faces is to convert the abundant population pool into useful human resource.
2. Training and development of human resource to match ever changing industry demands requires HR to develop new and innovative ideas that suit individual as well as industry criteria.
3. Employee motivation and satisfaction is another area of concern for the HR today. In order to reduce attrition, HR needs to realize that monetary needs are not the only drive for an individual and that a sense of belongingness must be imbibed in employees.
4. With the increase in number of job options available nowadays, the HR function of an organization must take care that they hire those people who believe in long-term commitment to the organization. The HR then must take up the challenge of retaining them by developing retention techniques like Holiday plans fun-at-work etc.
5. Because of cutthroat competition, HR in India also faces the task of building competitive advantage for the company over national and international competitors.
6. The growing importance that companies are nowadays giving to cost-cutting has posed HR with the challenge to minimize expenditure on HR not compromising on the productivity.
7. Since right-sizing has been a growing trend in Indian organization, the HR now faces the task of identifying and retaining the key employees of an organization and letting go those that do not suit its future requirements.
8. HR also faces the challenge of creating a balanced organization that originates from mergers and acquisitions. HR needs to assimilate those policies that are mutually agreeable to the companies being merges as well as profitable for the new organization.
9. Globalization poses HR with challenges such as expatriation and repatriation. HR needs to train employees that leave their nation for fulfilling a foreign assignment. It also needs to provide such employees with adequate moral support and assure them of job security on their return.
10. With multinational organizations on the rise, HR needs to focus on issues such as cross-cultural training so that problems that can arise because of differences in international professional values can be diminished.

MEETING HR CHALLENGES:
The banking sector has been growing at a very fast pace in India not only in the terms of its size but also in terms of the services being provided. With banks reaching the remote areas in the country one can anticipate positive things like financial aid to farmers and increased financial awareness. However, with the increase in size and activities of banks, the number of banks in private sectors has also increased thereby posing challenges like cost-efficiency, technological advancement, and credibility related issues. The task before the HR is to develop strategies that help banks in gaining competitive advantage and encourage innovation in its products and services.

MANAGING HUMAN RESOURCE:
Considering the above HR challenges which our Indian banking industry is facing, we can manage the human resources by proper Planning like
- Hiring the right person for the right job
- Retaining and Developing
- Managing people/ conducting exit interviews

HIRING THE RIGHT PERSON FOR THE RIGHT JOB:
In assessing whether the "right person" has been selected for the "right job", the most prominent theoretical concept that emerges is the concept of "fit". Different writers emphasize different types of fit. Sekiguchi (2004: 179) in a review of literature on person-environment fit discusses two types of fit that emerge as the most prominent types of fit: person job fit and person- organization fit. In pursuing person-job fit, companies seek to match the job holder's knowledge, skills and abilities to the requirements of the job. Companies can ascertain person-organization fit by focusing on how well the individual fits with the culture or values of the company and the individual's capacity to work well with other company employees.

Banks will have to plan for the following:
- A steady, carefully calibrated recruitment programme,
- As rapid technological changes transform business – continuous skill up-gradation.
A new generation of the workforce will be working alongside an older generation as a team. Banking, in my opinion is a team work and this new situation will require cultural adjustments and therefore, change management.

RETAINING AND DEVELOPING EMPLOYEES:

We may be able to get the most suited people for our work but then the challenge is to retain these people and to develop them. There are several dimensions to this issue such as training/ re-skilling of employees, performance measurement, promotion policy, transfer policy, talent management, communication, etc. I will like to discuss some of them:

TRAINING AND DEVELOPMENT:

With drastic growth of banks it calls for efficient and well trained staff members to handle/deal with the consumer needs. Banks are shaping up as financial hub for their clients to grow in size and well recognized in the world market. To pull consumers banks are offering traditional with advance services like SMS banking, ATM, internet banking, priority banking, demat. So we can say that it caters to the need of the bottom to the highest class of society providing something to everyone. Universal banks have become modern day’s supermarket extending almost every facility of banking under one roof.

Banks like Bank of Baroda are conducting Grooming and etiquettes programmes for front-line employees and also for employees selected for oversea posting in order to improve their service levels and qualitative interaction with customers and various stakeholders better. SEED (Self efficiency and effectiveness development) programme being run for frontline staff of the Bank in order to improve their service skills and servicing efficiency. In Punjab National Bank, in the light of the large scale human resources gaps that Bank is likely to face in the next few years need for Succession Policy has been felt. The Policy envisages mapping of the ‘existing pool’ against the ‘future requirement’ from the projected business figure to ensure that adequate number of officials are available in the pool and also to foresee the surplus / deficit in the pool for ascertaining the requirement of succession in a particular vertical. Bank has a three tier training set up comprising of Central Staff College (CSC) at Delhi at apex level catering to training needs of Top / Senior / Middle Management Grade officers, three Regional Staff Colleges (RSCs) located at Belapur-Navi Mumbai, Lucknow and Panchkula for training needs of Senior / Middle /Junior Management officers as well as workman staff and seven Zonal Training Centers (ZTCs) at Dehradun, New Delhi, Jaipur, Kolkata, Kozhikode, Ludhiana and Patna looking after the training needs of Middle / Junior Management Grade officers & Workman Staff. IT Training Centre located at Faridabad caters to the training needs of officers exclusively in the areas of Information Technology.

PERFORMANCE MANAGEMENT:

Banking service is one sector where a great degree of attention is being paid to performance appraisal system. Several of the nationalized banks have changed their performance appraisal system or are in the process of changing them. In most of the banks that follows the traditional system, their officers are being assessed on the following characteristics:

- General Intelligence
- Job Knowledge
> Initiative and resourcefulness
> Supervision
> Business Capacity
> Ability to assess sound business propositions
> Dependability
> Relationship with junior & senior colleagues
> Relationship with public
> Conduct, manners, Managerial ability
> Failures that attracted issue of warning by superiors

Several of the banks also have self appraisal as a part of performance appraisal, although mostly such self appraisal is more of a communication of achievements. A fair, transparent and objective mechanism for performance management is a must for all banks because an effective Performance Management System is the key to talent management and succession planning. RBI is shortly going to introduce a new Performance Management System that will work on goal setting, potential appraisal of performers and developing a talent pipeline. With all these changes we are also going to face major challenges on the Talent Management front. In coming times, the work force will get complex and there will be a need to juggle a wide variety of people with varied needs and preferences, resulting in an array of relationships between the organization and those who work for it. Peter Drucker had, more than a decade ago, expressed the need for what he called “non-traditional” work relations: flexible schedules, contract arrangements, virtual teams, etc.

SYSTEMS/PROCESS

The effectiveness of any efficient HR system/process is that it should be objective and transparent. These traits are essential for the manpower to repose trust in the organization’s systems/processes. No HR function can be effective if it does not enjoy the trust and confidence of its constituents. Two key stakeholders in the HR management process are Board/Senior Management and Unions. How much time do Board members spend on HR related issues? Structurally, it is important that Board/senior management is actively involved in HR matters involving all its manifestations. Organized employee unions are an important part of the democratic process and form an effective channel for communicating with employees down the line. It is important to involve them in the HR process without allowing them to have an overbearing influence. HRD climate in an organization is reflected by its role, clarity, openness, trust, teamwork, proactive orientation, planning of development of every employee etc. HRD climate and processes are dependent on personal policies, top management styles, investments on HRD, top management commitments, line manager’s interest, previous culture, etc.

To sum up the relationship between human resource development mechanism and human resource development processes and climate can be explained as:

> HRD mechanisms are most useful instruments to develop a healthy HRD climate.
> HRD instruments are used to develop desired Human resource development processes

HRD experts use the term OCTAPACE to express the important features of HRD climate
The most important aspect of organizational culture is the values it practices. Eight values may be examined to develop the profile of an organizational culture that is called OCTAPACE it means OPENNESS, CONFRONTATION, TRUST, AUTHENTICITY, PROACTIVELY, AUTONOMY, COLLABORATION, AND EXPERIMENTING.

IMPORTANCE OF COMMUNICATION

Communication is what makes the world spin. It's how information is shared, news is spread and lives kept safe. Effective communication has an incredible impact on the productivity of Human Resource Management (HRM) because without it there are frustrated employees, confusion in the workplace and unhappy customers in the end. From hiring and firing to developing and enforcing company policy, communication is what a good HRM department is built on. The primary function of effective communication in HRM is to empower the employees. With the proper information, a rewards system and effective policies in place, employees feel empowered and motivated to do their jobs to the best of their ability. Communication keeps everyone in the know and dispels any wrong information or confusion.

Communication Policy of RBI:

The following broad guidelines and operational practices for communication have evolved from the objectives of the organization and goals of communication

➢ The Reserve Bank’s communication should contribute towards achieving the overall objectives of transparency, credibility and accountability.

➢ It should always endeavor to place all sustainable information in the public domain so as to discourage individual seeking of information. Information, especially market sensitive information, should be released in a timely and equitable manner.

➢ Communication should primarily be focused on issues of importance to central banking.

➢ The Governor and the Deputy Governor in charge of monetary policy are the only spokespersons on issues relating to monetary policy and the exchange rate.

➢ Deputy Governors are the spokespersons in their respective areas of responsibility;

➢ Executive Directors and heads of departments speak only with explicit authority from the Governor/Deputy Governors;
Regional heads clarify local issues;
The head of Department of Communication is the general spokesperson of the Reserve Bank;
All press releases except those relating to regional matters – which are rare- are centrally issued by the Department of Communication;
All information – in print form or on the website - is simultaneously placed in public domain
*Source: Site of RBI*

**MANAGING SEPARATION**

In recent years, with the high levels of attrition in the service sector, it has become imperative for firms to have a structured separation plan for orderly exits of employees. Of course, the concept of “pink slips” or involuntary exits are another matter altogether and involve some bitterness that results because of the employee losing his or her job. In conclusion, it is our view that employee separations must be handled in a professional and mature manner and though attrition is a fact that concerns everyone in the industry, once an employee decides to leave, the separation must be as smooth as possible.

**Role of HR manager in exit interview:**
- Discover the employees reason for leaving
- Give positive attention to the departing employees in order to alleviate possible frustrations and/or negative attitude toward the organization.
- Allow departing employees to have a voice about what their work experience was like
- Receive valuable feedback from departing employees about compensation, working conditions, management, and the culture of the organization.
- Explore areas of the departing employee’s most serious concerns, and record details of what they enjoyed most.
- Departing employees have an opportunity to transfer knowledge and experience to a successor or replacement; may also brief a team on current projects, issues and contacts
- Chance for departing employees to give constructive feedback, and to leave on a positive note, with good relations and mutual respect.

**SOME OTHER HR PRACTICES AND BENEFITS GIVEN TO EMPLOYEES:**

**GRATUITY:**
HDFC Bank provides gratuity to all employees. The benefit is in the form of lump sum payments to vested employees on resignation, retirement, death while in employment or on termination of employment of an amount equivalent to 15 days basic salary payable for each completed year of service. Vesting occurs upon completion of five years of service.

**SUPERANNUATION:**
Employees of the Bank, above a prescribed grade, are entitled to receive retirement benefits under the Bank’s Superannuation Fund. The Bank contributes a sum equivalent to 13% of the employee’s eligible annual basic salary (15% for the Managing Director, Executive Directors and for certain eligible erstwhile Centurion Bank of Punjab (‘eCBoP’) staff) to
insurance companies, which administer the fund. The Bank has no liability for future superannuation fund benefits other than its contribution, and recognizes such contributions as an expense in the year incurred, as such contribution is in the nature of defined contribution.

SHORT TERM EMPLOYEE BENEFITS:
In State Bank of India the undiscounted amount of short-term employee benefits, such as medical benefits, casual leave etc. which are expected to be paid in exchange for the services rendered by employees are recognized during the period when the employee renders the service. The Bank operates a Provident Fund scheme. All eligible employees are entitled to receive benefits under the Bank’s Provident Fund scheme. The Bank contributes monthly at determined rate (currently 10% of employee’s basic pay plus eligible allowance). These contributions are remitted to a trust established for this purpose and are charged to Profit and Loss Account. The Bank provides for pension to all eligible employees. The benefit is in the form of monthly payments as per rules and regular payments to vested employees on retirement, on death while in employment, or on termination of employment. Vesting occurs at different stages as per rules.

SUGGESTIONS:
The banking sector has grown from a few institutions primarily involved in deposit acceptance and trade finance into a complex multi player markets where large number of commercial banks, financial institutions and specialized banks are operating with various product activities. 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 hand and a highly educated and trained professional as head of corporate finance. 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 customer’s door step in a big way making banking more practical. This has further highlighted the need for proper development of man power to run banks efficiently. Smart banks have realized this need and have taken steps to keep their workforce motivated through proper encouragement like man of the month award, repeat get-together, conferences, sports events, dinners, company sponsored travel, reunions etc. In spite of all these facilitations there still exist several lacunas in the HRM practices in banking industry. Some of the specific suggestions based on survey of literature as well as the group discussions and survey are given here under:

>& There should be a balanced compromise between organizational need and individual need. Total insensitivity to individual preference gives rise to frustration at some point of time, which as a consequence has a real damaging effect on the organizational growth itself.
>& While there must be rewards for performance, non-performance must be punished/reprimanded. Promotions must be only on merit.
>& There must be uniform, impartial and balanced “employee performance review system.” This system in fact needs a total review.
>& Enthusiastic and pleasant behaviour of staff to the customer is necessary.
>& There must be a clearly defined system of succession planning and career growth planning in banks.
>& Attitudinal changes are required at the top level.
Human resource Balance Sheet should accompany financial statements.

In order to become HRD conscious, the Public Sector Banks should allow independent functioning of HRD section, where the top person should be himself a good successful banker, a real HRD person free from any biases.

More openness, transparency in personal matters, high value of human dignity, people oriented management system, creating belongingness and trust, two-way communication.

Banks should have a system, whereby the training needs of an employee are identified and are duly fulfilled at every stage of career growth.

Have special R & D wings in HRD Department for ongoing in house & external research development, review and implementation of HRD policies.

There should be award schemes administered by prestigious organizations and Govt. agencies for best HRD policies & Practices amongst Public Sector Banks etc.

6. CONCLUSION:

To conclude, Organizations all over are rushing to implement the latest ideas on management, sometimes to the point of overuse. The major challenge now for banks as well as any other organization is therefore how to develop their social architecture that generates intellectual capital as the quintessential driver of change. Developing the individual or human capacity is an integral element of building capacity and, in fact, capacity building initiatives are now increasingly becoming almost an index of institutional quality. Taking the banking industry to the heights of excellence, especially in the face of the a forehead-detailed emerging realities, will require a combination of new technologies, better processes of credit and risk appraisal, treasury management, product diversification, internal control and external regulations and, not the least, human resources.

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Abstract

The Indian derivative market has become multi-trillion dollar markets over the years. Marked with the ability to partially and fully transfer the risk by locking in assets prices, derivatives are gaining popularity among the investors. Since the economic reforms of 1991, maximum efforts have been made to boost the investors’ confidence by making the trading process more users’ friendly. Still, there are some issues in this market. So, the present paper is an attempt to study the evolution of Indian derivative market, trading mechanism in its various products and the future prospects of the Indian Derivative market. The present paper is descriptive in nature and based on the secondary data. In spite of the growth in the derivative market, there are many issue (e.g., the lack of economies of scale, tax and legal bottlenecks, increased off-balance sheet exposure of Indian banks need for an independent regulator etc), which need to be immediately resolved to enhance the investors’ confidence in the Indian Derivative market.

Keywords: Forward, Futures, Options, Financial Derivatives, Risk Management, Exchange rates

Introduction

Risk is a characteristic feature of all commodity and capital markets. Over time, variations in the prices of agricultural and non-agricultural commodities occur as a result of interaction of demand and supply forces. The last two decades have witnessed a many-fold increase in the movement of international trade and business due to the ever growing wave of globalization and liberalization sweeping across the world. As a result, financial markets have experienced rapid variations in interest and exchange rates, stock market prices thus exposing the corporate world to a state of growing financial risk. Increased financial risk causes losses to an otherwise profitable organization. This underscores the importance of risk management to hedge against uncertainty. Derivatives provide an effective solution to the problem of risk caused by uncertainty and volatility in underlying asset. Derivatives are risk management tools that help an organization to effectively transfer risk. Derivatives are instruments which have no independent value. Their value depends upon the underlying asset. The underlying asset may be financial or non-financial. The present study attempts to discuss the genesis of derivatives trading by tracing its historical development, types of traded derivatives products, regulation and policy developments, trend and growth, future prospects and challenges of derivative
market in India. The study is organized into four sections. Section I deals with the concept, definition, features and types of financial derivatives. Section II has been devoted to a discussion of the growth of derivatives market, and regulation and policy development. Section III discusses status of global derivatives market vis-a-vis Indian derivatives market. The last section specifies summary and concluding remarks.

Section I

1. Derivatives: Section 2(ac) of Securities Contract Regulation Act (SCRA) 1956 defines Derivative as: a) "a security derived from a debt instrument, share, loan whether secured or unsecured, risk instrument or contract for differences or any other form of security"; b) "a contract which derives its value from the prices, or index of prices, of underlying securities". The International Monetary Fund (2001) defines derivatives as "financial instruments that are linked to a specific financial instrument or indicator or commodity and through which specific risks can be traded in financial markets in their own right. The value of a financial derivative derives from the price of an underlying item, such as an asset or index. Unlike debt securities, no principal is advanced to be repaid and no investment income accrues."

1.1. Definition of Financial Derivatives: Section 2(ac) of Securities Contract Regulation Act (SCRA) 1956 defines Derivative as:

a. "a security derived from a debt instrument, share, loan whether secured or unsecured, risk instrument or contract for differences or any other form of security"

b. "a contract which derives its value from the prices, or index of prices, of underlying securities"

1.2. Underlying Asset in a Derivatives Contract: As defined above, the value of a derivative instrument depends upon the underlying asset. The Underlying asset may assume many forms:

i. Commodities including grain, coffee beans, orange juice;
ii. Precious metals like gold and silver;
iii. Foreign exchange rates or currencies;
iv. Bonds of different types, including medium to long term negotiable debt securities issued by
v. Governments, companies, etc.
vi. Shares and share warrants of companies traded on recognized stock exchanges and Stock Index
vii. Short term securities such as T-bills; and
viii. Over-the-Counter (OTC) 2 money market products such as loans or deposits.

1.3 Participants in Derivatives Market

1. Hedgers: They use derivatives markets to reduce or eliminate the risk associated with price of an asset. Majority of the participants in derivatives market belongs to this category.

2. Speculators: They transact futures and options contracts to get extra leverage in betting on future movements in the price of an asset. They can increase both the potential gains and potential losses by usage of derivatives in a speculative venture.

3. Arbitrageurs: Their behavior is guided by the desire to take advantage of a discrepancy between prices of more or less the same assets or competing assets in different markets. If, for example, they see the futures price of an asset getting out of line with the cash price, they will take offsetting positions in the two markets to lock in a profit.

1.4. Classification of Derivatives:

Broadly derivatives can be classified in to two categories as shown in Fig.1: Commodity derivatives and financial derivatives. In case of commodity derivatives, underlying asset can be commodities like wheat, gold, silver etc., whereas in case of financial derivatives underlying assets are stocks, currencies, bonds and other interest rates bearing securities etc. Since, the scope of this case study is limited to only financial derivatives so we will confine our discussion to financial derivatives only.
1.4.1. **Forward Contract:** A forward contract is an agreement between two parties to buy or sell an asset at a specified point of time in the future. In case of a forward contract the price which is paid/received by the parties is decided at the time of entering into contract. It is the simplest form of derivative contract mostly entered by individuals in day to day's life. Forward contract is a cash market transaction in which delivery of the instrument is deferred until the contract has been made. Although the delivery is made in the future, the price is determined on the initial trade date. One of the parties to a forward contract assumes a long position (buyer) and agrees to buy the underlying asset at a certain future date for a certain price. The other party to the contract known as seller assumes a short position and agrees to sell the asset on the same date for the same price. The specified price is referred to as the delivery price. The contract terms like delivery price and quantity are mutually agreed upon by the parties to the contract. No margins are generally payable by any of the parties to the other. Forwards contracts are traded over-the-counter and are not dealt with on an exchange unlike futures contract. Lack of liquidity and counter party default risks are the main drawbacks of a forward contract. For instance, consider a US based company buying textile from an exporter from England worth £ 1 million payment due in 90 days. The Importer is short of Pounds- it owes pounds for future delivery. Suppose the spot (cash market) price of pound is US $1.71 and importer fears that in next 90 days, pounds might rise against the dollar, thereby raising the dollar cost of the textiles. The importer can guard against this risk by immediately negotiating a 90 days forward contract with City Bank at a forward rate of say, £ 1 = $1.72. According to the forward contract, in 90 days the City Bank will give the US importer £ 1 million (which it will use to pay for textile order), and importer will give the bank $1.72vmillion (1million ×$1.72) which is

1.4.2. **Futures Contract:** Futures is a standardized forward contact to buy (long) or sell (short) the underlying asset at a specified price at a specified future date through a specified exchange. Futures contracts are traded on exchanges that work as a buyer or seller for the counterparty. Exchange sets the standardized terms in term of Quality, quantity, Price quotation, Date and Delivery place (in case of commodity). The features of a futures contract may be specified as follows:

i. These are traded on an organized exchange like IMM, LIFFE, NSE, BSE, CBOT etc.

ii. These involve standardized contract terms viz. the underlying asset, the time of maturity and the manner of maturity etc.

iii. These are associated with a clearing house to ensure smooth functioning of the market. There are margin requirements and daily settlement to act as further safeguard. These provide for supervision and monitoring of contract by a regulatory authority.

iv. Almost ninety percent future contracts are settled via cash settlement instead of actual delivery of underlying asset. Futures contracts being traded on organized exchanges impart liquidity to the transaction. The clearinghouse, being the counter party to both sides of a transaction, provides a mechanism that guarantees the honoring of the contract and ensuring very low level of default (Hirani, 2007).

Following are the important types of financial futures contract:-

i. Stock Future or equity futures, ii. Stock Index futures, iii. Currency futures, and iv. Interest Rate bearing securities like Bonds, T-Bill Futures. To give an example of a futures contract, suppose on November 2007 Ramesh holds 1000 shares of ABC Ltd. Current (spot) price of ABC Ltd shares is Rs 115 at National Stock Exchange (NSE). Ramesh entertains the
fear that the share price of ABC Ltd may fall in next two months resulting in a position at Rs 115 per share for delivery in January 2008. Each contract in futures market is of 100 Shares. This is an example of equity future in which Ramesh takes short position on ABC Ltd. Shares by selling 1000 shares at Rs 115 and locks into future price.

1.4.3. Options Contract: In case of futures contact, both parties are under obligation to perform their respective obligations out of a contract. But an options contract, as the name suggests, is in some sense, an optional contract. An option is the right, but not the obligation, to buy or sell something at a stated date at a stated price. A “call option” gives one the right to buy; a “put option” gives one the right to sell. Options are the standardized financial contract that allows the buyer (holder) of the option, i.e. the right at the cost of option premium, not the obligation, to buy (call options) or sell (put options) a specified asset at a set price on or before a specified date through exchanges. Options contracts are of two types: call options and put options. Apart from this, options can also be classified as OTC (Over the Counter) options and exchange traded options. In case of exchange traded options contract, contracts are standardized and traded on recognized exchanges, whereas OTC options are customized contracts traded privately between the parties. A call options gives the holder (buyer/one who is long call), the right to buy specified quantity of the underlying asset at the strike price on or before expiration date. The seller (one who is short call) however, has the obligation to sell the underlying asset if the buyer of the call option decides to exercise his option to buy. Suppose an investor buys One European call options on Infosys at the strike price of Rs. 3500 at a premium of Rs. 100. Apparently, if the market price of Infosys on the day of expiry is more than Rs. 3500, the options will be exercised. In contrast, a put option gives the holder substantial loss to him. Ramesh decides to enter into futures market to protect his (buyer/ one who is long put), the right to sell specified quantity of the underlying asset at the strike price on or before an expiry date. The seller of the put options (one who is short put) however, has the obligation to buy the underlying asset at the strike price if the buyer decides to exercise his option to sell. Right to sell is called a Put Options. Suppose X has 100 shares of Bajaj Auto Limited. Current price (March) of Bajaj auto shares is Rs 700 per share X needs money to finance its requirements after two months which he will realize after selling 100 shares after two months. But he is of the fear that by next two months price of share will decline. He decides to enter into option market by buying Put Option (Right to Sell) with an expiration date in May at a strike price of Rs 685 per share and a premium of Rs 15 per shares.

1.4.4 Swaps Contract: A swap can be defined as a barter or exchange. It is a contract whereby parties agree to exchange obligations that each of them have under their respective underlying contracts or we can say, a swap is an agreement between two or more parties to exchange stream of cash flows over a period of time in the future. The parties that agree to the swap are known as counter parties. The two commonly used swaps are: i) Interest rate swaps which entail swapping only the interest related cash flows between the parties in the same currency, and ii) Currency swaps: These entail swapping both principal and interest between the parties, with the cash flows in one direction being in a different currency than the cash flows in the opposite direction.

Section II

2. History of Derivatives Markets in India: Derivatives markets in India have been in existence in one form or the other for a long time. In the area Of commodities, the Bombay Cotton Trade Association started futures trading way back in 1875. In 1952, the Government of
India banned cash settlement and options trading. Derivatives trading shifted to informal forwards markets. In recent years, government policy has shifted in favor of an increased role of market-based pricing and less suspicious derivatives trading. The first step towards introduction of financial derivatives trading in India was the promulgation of the Securities Laws (Amendment) Ordinance, 1995. It provided for withdrawal of prohibition on options in securities. The last decade, beginning the year 2000, saw lifting of ban on futures trading in many commodities. Around the same period, national electronic commodity exchanges were also set up. Derivatives trading commenced in India in June 2000 after SEBI granted the final approval to this effect in May 2001 on the recommendation of L. C Gupta committee. Securities and Exchange Board of India (SEBI) permitted the derivative segments of two stock exchanges, NSE3 and BSE4, and their clearing house/corporation to commence trading and settlement in approved derivatives contracts. Initially, SEBI approved trading in index futures contracts based on various stock market indices such as, S&P CNX, Nifty and Sensex. Subsequently, index-based trading was permitted in options as well as individual securities. The trading in BSE Sensex options commenced on June 4, 2001 and the trading in options on individual securities commenced in July 2001. Futures contracts on individual stocks were launched in November 2001. The derivatives trading on NSE commenced with S&P CNX Nifty Index futures on June 12, 2000. The trading in index options commenced on June 4, 2001 and trading in options on individual securities commenced on July 2, 2001. Single stock futures were launched on November 9, 2001. The index futures and options contract on NSE are based on S&P CNX. In June 2003, NSE introduced Interest Rate Futures which were subsequently banned due to pricing issue. Table 1 gives chronology of introduction of derivatives in India.

<table>
<thead>
<tr>
<th>Date</th>
<th>Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>14 December 1995</td>
<td>NSE asked SEBI for permission to trade index futures</td>
</tr>
<tr>
<td>18 November 1995</td>
<td>SEBI asked L. C. Gupta Committee to draft a policy framework for index futures.</td>
</tr>
<tr>
<td>11 May 1999</td>
<td>L. C. Gupta Committee submitted report</td>
</tr>
<tr>
<td>7 July 1999</td>
<td>RBI gave permission for OTC forward rate agreements (FRAs) and interest rate swaps</td>
</tr>
<tr>
<td>24 May 2000</td>
<td>SIMEX chose Nifty for trading futures and options on an Indian index.</td>
</tr>
<tr>
<td>25 May 2000</td>
<td>SEBI gave permission to NSE and BSE to do index futures trading</td>
</tr>
<tr>
<td>9 June 2000</td>
<td>Trading of BSE Sensex futures commenced at BSE.</td>
</tr>
<tr>
<td>12 June 2000</td>
<td>Trading of Nifty futures commenced at NSE</td>
</tr>
<tr>
<td>21 August 2000</td>
<td>Trading of futures and options on Nifty to commence at SIMEX.</td>
</tr>
<tr>
<td>June 2001</td>
<td>Trading of Equity Index Options at NSE</td>
</tr>
<tr>
<td>July 2001</td>
<td>Trading of Stock Options at NSE</td>
</tr>
<tr>
<td>November 9, 2002</td>
<td>Trading of Single Stock futures at BSE</td>
</tr>
<tr>
<td>June 2003</td>
<td>Trading of Interest Rate Futures at NSE</td>
</tr>
<tr>
<td>September 13, 2004</td>
<td>Weekly Options at BSE</td>
</tr>
<tr>
<td>January 1, 2008</td>
<td>Trading of Currency Futures at NSE</td>
</tr>
<tr>
<td>January 1, 2008</td>
<td>Trading of Currency Futures at BSE</td>
</tr>
<tr>
<td>August 25, 2008</td>
<td>Trading of Currency Futures at BSE</td>
</tr>
<tr>
<td>October 2, 2008</td>
<td>Source: Compiled from BSE and NSE</td>
</tr>
</tbody>
</table>

2.1. Regulation of Derivatives Trading in India: The regulatory framework in India is based on L.C. Gupta Committee report and J.R. Varma Committee report. It is mostly consistent with the international organization of securities commission (IUSCO). The L.C. Gupta Committee report provides a perspective on division of regulatory responsibility between the exchange and SEBI. It recommends that SEBI's role should be restricted to approving rules, bye laws and regulations of a derivatives exchange as also to approving the proposed derivatives contracts before commencement of their trading. It emphasizes the supervisory and advisory role of SEBI. It also suggests establishment of a separate clearing corporation.

2.2. Derivatives Market India: As mentioned in the preceding discussion, derivatives trading commenced in Indian
market in 2000 with the introduction of Index futures at BSE, and subsequently, on National Stock Exchange (NSE). Since then, derivatives market in India has witnessed tremendous growth in terms of trading value and number of traded contracts. Here we may discuss the performance of derivatives products in India markets as follows.

2.2.1. Derivatives Products Traded in Derivatives Segment of BSE

The BSE created history on June 9, 2000 when it launched trading in Sensex based futures contract for the first time. It was followed by trading in index options on June 1, 2001; in stock options and single stock futures (31 stocks) on July 9, 2001 and November 9, 2002, respectively. Currently, the number of stocks under single futures and options is 1096. BSE achieved another milestone on September 13, 2004 when it launched Weekly Options, a unique product unparalleled worldwide in the derivatives markets. It permitted trading in the stocks of four leading companies namely, Satyam, State Bank of India, Reliance Industries and TISCO (renamed now Tata Steel). Chhota (mini) SENSEX7 was launched on January 1, 2008. With a small or 'mini' market lot of 5, it allows for comparatively lower capital outlay, lower trading costs, more precise hedging and flexible trading. Currency futures were introduced on October 1, 2008 to enable participants to hedge their currency risks through trading in the U.S. dollar-rupee future platforms.

Table 2: Products Traded in Derivatives Segment of the BSE

<table>
<thead>
<tr>
<th>S.no</th>
<th>Product Traded with underlying asset</th>
<th>Introduction Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Index Futures- Sensex</td>
<td>June 9,2000</td>
</tr>
<tr>
<td>2</td>
<td>Index Options- Sensex</td>
<td>June 1,2001</td>
</tr>
<tr>
<td>3</td>
<td>Stock Option on 109 Stocks</td>
<td>July 9,2001</td>
</tr>
<tr>
<td>4</td>
<td>Stock futures on 109 Stocks</td>
<td>November 9,2002</td>
</tr>
<tr>
<td>5</td>
<td>Weekly Option on 4 Stocks</td>
<td>September 13,2004</td>
</tr>
<tr>
<td>6</td>
<td>Chhota (mini) SENSEX</td>
<td>January 1,2008</td>
</tr>
<tr>
<td>7</td>
<td>Futures &amp; Options on Sectoral indices namely BSE TECK, BSE FMCG, BSE Metal, BSE Bankex and BSE Oil &amp; Gas.</td>
<td>N.A</td>
</tr>
<tr>
<td>8</td>
<td>Currency Futures on US Dollar Rupee</td>
<td>October 1,2008</td>
</tr>
</tbody>
</table>

Source: Compiled from BSE website

2.2.2. Derivatives Products Traded in Derivatives Segment of NSE

NSE started trading in index futures, based on popular S&P CNX Index, on June 12, 2000 as its first derivatives product. Trading on index options was introduced on June 4, 2001. Futures on individual securities started on November 9, 2001. The futures contracts are available on 2338 securities stipulated by the Securities & Exchange Board of India (SEBI). Trading in options on individual securities commenced from July 2, 2001. The options contracts are American style and cash settled and are available on 233 securities. Trading in interest rate futures was introduced on 24 June 2003 but it was closed subsequently due to pricing problem. The NSE achieved another landmark in product introduction by launching Mini Index Futures & Options with a minimum contract size of Rs 1 lac.

NSE created history by launching currency futures contract on US Dollar-Rupee on August 29, 2008 in Indian Derivatives market. Table 3 presents a description of the types of products traded at F&O Segment of NSE.
Table 3: Products Traded in F&O Segment of NSE

<table>
<thead>
<tr>
<th>S.no</th>
<th>Product Traded with underlying asset</th>
<th>Introduction Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Index Futures- S&amp;P CNX Nifty</td>
<td>June 12, 2000</td>
</tr>
<tr>
<td>2</td>
<td>Index Options- S&amp;P CNX Nifty</td>
<td>June 4, 2001</td>
</tr>
<tr>
<td>3</td>
<td>Stock Option on 233 Stocks</td>
<td>July 2, 2001</td>
</tr>
<tr>
<td>4</td>
<td>Stock futures on 233 Stocks</td>
<td>November 9, 2001</td>
</tr>
<tr>
<td>5</td>
<td>Interest Rate Futures- T-Bills and 10 Years Bond</td>
<td>June 23, 2003</td>
</tr>
<tr>
<td>6</td>
<td>CNX 25 Futures &amp; Options</td>
<td>August 29, 2003</td>
</tr>
<tr>
<td>7</td>
<td>Bank Nifty Futures &amp; Options</td>
<td>June 13, 2005</td>
</tr>
<tr>
<td>8</td>
<td>CNX Nifty Junior Futures &amp; Options</td>
<td>June 1, 2007</td>
</tr>
<tr>
<td>9</td>
<td>CNX 100 Futures &amp; Options</td>
<td>June 1, 2007</td>
</tr>
<tr>
<td>10</td>
<td>Nifty Midcap 50 Futures &amp; Options</td>
<td>October 5, 2007</td>
</tr>
<tr>
<td>11</td>
<td>Mini index Futures &amp; Options - S&amp;P CNX Nifty index</td>
<td>January 1, 2008</td>
</tr>
<tr>
<td>12</td>
<td>Long Term Options contracts on S&amp;P CNX Nifty Index</td>
<td>March 3, 2008</td>
</tr>
<tr>
<td>13</td>
<td>Currency Futures on US Dollar Rupee</td>
<td>August 29, 2008</td>
</tr>
<tr>
<td>14</td>
<td>S&amp;P CNX Daily Futures &amp; Options</td>
<td>December 10, 2008</td>
</tr>
</tbody>
</table>

Source: Compiled from NSE website

2.3. Growth of Derivatives Market in India

Equity derivatives market in India has registered an "explosive growth" (see Fig. 2) and is expected to continue the same in the years to come. Introduced in 2000, financial derivatives market in India has shown a remarkable growth both in terms of volumes and numbers of traded contracts. NSE alone accounts for 99 percent of the derivatives trading in Indian markets. The introduction of derivatives has been well received by stock market players. Trading in derivatives gained popularity soon after its introduction. In due course, the turnover of the NSE derivatives market exceeded the turnover of the NSE cash market. For example, in 2008, the value of the NSE derivatives markets was Rs. 130, 90,477.75 Cr. whereas the value of the NSE cash markets was only Rs. 3,551,038 Cr. (see Table 4 through Table 7). If we compare the trading figures of NSE and BSE, performance of BSE is not encouraging both in terms of volumes and numbers of contracts traded in all product categories (see Table 8 through Table 10). Among all the products traded on NSE in F&O segment, single stock futures also known as equity futures, are most popular in terms of volumes and number of contract traded, followed by index futures with turnover shares of 52 percent and 31 percent, respectively (Fig. 3). In case of BSE, index futures outperform stock futures. An important feature of the derivative segment of NSE which may be observed from Table 6 and Table 7 is the huge gap between average daily transactions of its derivatives segment and cash segment. In sharp contrast to NSE, the situation at BSE is just the opposite: its cash segment outperforms the derivatives segment as can be seen from Table 10.

Figure 2: Business Growth of Derivatives at NSE from 2000-2009

Source: NSE fact book 2008 issue
Source: Author's calculation based on data compiled from NSE

Table 4: NSE Derivatives Segment Turnover

<table>
<thead>
<tr>
<th>Year</th>
<th>Index Futures</th>
<th>Stock Futures</th>
<th>Index Options</th>
<th>Stock Options</th>
<th>Interest Rate Futures</th>
<th>Total Turnover</th>
<th>Average Daily Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>2583617.92</td>
<td>2559083.55</td>
<td>2358916.90</td>
<td>199498.40</td>
<td>0.00</td>
<td>7655096.80</td>
<td>46998.07</td>
</tr>
<tr>
<td>2007-08</td>
<td>3820667.27</td>
<td>7548565.23</td>
<td>1362110.88</td>
<td>359136.55</td>
<td>0.00</td>
<td>13290477.75</td>
<td>52153.30</td>
</tr>
<tr>
<td>2006-07</td>
<td>2539574</td>
<td>3830967</td>
<td>791906</td>
<td>193795</td>
<td>0.00</td>
<td>7356242</td>
<td>29543</td>
</tr>
<tr>
<td>2005-06</td>
<td>1513755</td>
<td>2791997</td>
<td>338469</td>
<td>180253</td>
<td>0.00</td>
<td>4824174</td>
<td>19220</td>
</tr>
<tr>
<td>2004-05</td>
<td>772147</td>
<td>1484056</td>
<td>121943</td>
<td>168836</td>
<td>0.00</td>
<td>3236092</td>
<td>10107</td>
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<tr>
<td>2003-04</td>
<td>554446</td>
<td>1305939</td>
<td>52816</td>
<td>217207</td>
<td>0.00</td>
<td>21305610</td>
<td>8388</td>
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<tr>
<td>2002-03</td>
<td>43952</td>
<td>286533</td>
<td>9246</td>
<td>100131</td>
<td>0.00</td>
<td>439862</td>
<td>1752</td>
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<tr>
<td>2001-02</td>
<td>21483</td>
<td>51515</td>
<td>3765</td>
<td>25163</td>
<td>0.00</td>
<td>101926</td>
<td>410</td>
</tr>
<tr>
<td>2000-01</td>
<td>2365</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2365</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: Compiled from NSE website

Table 5: NSE Cash & Derivatives Segment Turnover

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Segment</th>
<th>Derivatives Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>3,551,038</td>
<td>13090477.75</td>
</tr>
<tr>
<td>2006-07</td>
<td>1,945,285</td>
<td>7356242</td>
</tr>
<tr>
<td>2005-06</td>
<td>1,569,556</td>
<td>4824174</td>
</tr>
<tr>
<td>2004-05</td>
<td>1,140,071</td>
<td>2546982</td>
</tr>
<tr>
<td>2003-04</td>
<td>1,099,535</td>
<td>21305610</td>
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<tr>
<td>2002-03</td>
<td>617,989</td>
<td>439862</td>
</tr>
<tr>
<td>2001-02</td>
<td>513,167</td>
<td>101926</td>
</tr>
<tr>
<td>2000-01</td>
<td>1,339,510</td>
<td>2365</td>
</tr>
</tbody>
</table>

Source: Compiled from NSE website

Table 6: Number of contract traded at NSE Derivatives Segment

<table>
<thead>
<tr>
<th>Year</th>
<th>Index Futures</th>
<th>Stock Futures</th>
<th>Index Options</th>
<th>Stock Options</th>
<th>Interest Rate Futures</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>136476747</td>
<td>149159997</td>
<td>116790708</td>
<td>7826331</td>
<td>0</td>
<td>410255683</td>
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<tr>
<td>2007-08</td>
<td>156598579</td>
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<td>9460031</td>
<td>0</td>
<td>425013200</td>
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<tr>
<td>2006-07</td>
<td>81847424</td>
<td>104955461</td>
<td>25157438</td>
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<td>0</td>
<td>216883573</td>
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<tr>
<td>2005-06</td>
<td>58537886</td>
<td>80905443</td>
<td>12935116</td>
<td>5240776</td>
<td>0</td>
<td>157619271</td>
</tr>
<tr>
<td>2004-05</td>
<td>21655449</td>
<td>47043066</td>
<td>32933538</td>
<td>5045112</td>
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<td>17971815</td>
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<td>2003-04</td>
<td>171915668</td>
<td>32368842</td>
<td>1732414</td>
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<td>2002-03</td>
<td>2129763</td>
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<td>442241</td>
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<td>16768909</td>
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<tr>
<td>2001-02</td>
<td>1025588</td>
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<td>175900</td>
<td>1075729</td>
<td>-</td>
<td>4198873</td>
</tr>
<tr>
<td>2000-01</td>
<td>90380</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>90580</td>
</tr>
</tbody>
</table>

Source: compiled from NSE website
Despite of encouraging growth and developments, industry analyst feels that the derivatives market has not yet, realized its full potential in terms of growth & trading. Analysts points out that the equity derivative markets on the BSE and NSE has been limited to only four products—index futures, index options and individual stock futures and options, which in turn, are limited to certain select stocks only. Although recently NSE and BSE has added more products in their derivatives segment(Weekly Options, Currency futures, Mini Index etc.) but still it is far less than the depth and variety of products prevailing across many developed capital markets.
Section III
3. Status of Indian Derivatives Market vis-a-vis Global Derivatives Market
The derivatives segment has expanded in the recent years in a substantial way both globally as well as in the Indian capital market. The figures revealed by Futures Industry Association (FIA) Annual Volume Survey and reported here under Table 11 and Fig. 5 bring out the fact that more than 15 billion futures and options contracts were traded during 2007 on the 54 important exchanges that report to the FIA, reflecting a remarkable increase of 28% from the previous year. Looking back at the last four years, it can be worked out that these figures reflect that the growth rate was 29% in 2006, 19% in 2006, 12% in 2005, and 9% in 2004. From the same table it also follows that of the total volume traded globally over the period 2000-07, the US exchanges alone constituted as much as 35 percent share. Fig. 6 presents the breakdown of derivatives volume by region and it is clearly evident that after North America with a share of about 40 percent, Asia-Pacific occupies the second slot with a share of 28 percent and Europe falls at the third place with its contribution of 24 percent. If we compare the turnover-wise performance of the derivatives segments over the last five years, it may be noticed from an inspection of the relevant columns of Table 5 and Table 11 that the Indian segment has expanded phenomenally as compared to the global segment. The turnover of the NSE derivatives segment in 2003-04 stood at Rs. 2130610crores. It grew to an astonishing level of Rs.1390477crores during the year 2007-08, displaying a more than six-time increase over the five-year period. In marked contrast, at the global level the increase was less than even two-fold: the turnover was $8163 million in 2003 and $15187 million in 2007.

Table 11: Global Trend in Turnover of Derivatives Trading

<table>
<thead>
<tr>
<th>Year</th>
<th>US Exchanges</th>
<th>Non-US Exchanges</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>1313.65</td>
<td>1675.80</td>
<td>2989.45</td>
</tr>
<tr>
<td>2001</td>
<td>1578.62</td>
<td>2708.70</td>
<td>4347.32</td>
</tr>
<tr>
<td>2002</td>
<td>1844.90</td>
<td>4572.38</td>
<td>6417.28</td>
</tr>
<tr>
<td>2003</td>
<td>2172.52</td>
<td>5990.22</td>
<td>8162.54</td>
</tr>
<tr>
<td>2004</td>
<td>2795.31</td>
<td>6009.50</td>
<td>8664.71</td>
</tr>
<tr>
<td>2005</td>
<td>3525.00</td>
<td>6448.67</td>
<td>9973.67</td>
</tr>
<tr>
<td>2006</td>
<td>4616.73</td>
<td>7245.48</td>
<td>11862.21</td>
</tr>
<tr>
<td>2007</td>
<td>6137.20</td>
<td>9049.47</td>
<td>15186.67</td>
</tr>
<tr>
<td>2000-07</td>
<td>25983 (55.48)</td>
<td>43820 (64.52)</td>
<td>67604 (100)</td>
</tr>
</tbody>
</table>

Source: FI Futures Industry, March/April 2008

Figure 5: Global Derivatives Volume Growth 2002-2007
Section IV
4. Summary and Concluding Remarks
Innovation of derivatives have redefined and revolutionized the landscape of financial industry across the world and derivatives have earned a well deserved and extremely significant place among all the financial products. Derivatives are risk management tool that help in effective management of risk by various stakeholders. Derivatives provide an opportunity to transfer risk, from the one who wish to avoid it; to one, who wish to accept it. India’s experience with the launch of equity derivatives market has been extremely encouraging and successful. The derivatives turnover on the NSE has surpassed the equity market turnover. Significantly, its growth in the recent years has surpassed the growth of its counterpart globally. The turnover of derivatives on the NSE increased from Rs. 23,654 million (US $ 207 million) in 2000-01 to Rs. 130,904,779 million (US $ 3,275,076 million) in 2007-08. India is one of the most successful developing countries in terms of a vibrant market for exchange-traded derivatives. This reiterates the strengths of the modern development of India’s securities markets, which are based on nationwide market access, anonymous safe and secure electronic trading, and a predominantly retail market. There is an increasing sense that the equity derivatives market is playing a major role in shaping price discovery. Factors like increased volatility in financial asset prices; growing integration of national financial markets with international markets; development of more sophisticated risk management tools; wider choices of risk management strategies to economic agents and innovations in financial engineering, have been driving the growth of financial derivatives worldwide and have also fuelled the growth of derivatives here, in India. There is no better way to highlight the significance and contribution of derivatives but the comments of the longest serving Governor of Federal Reserve, Alan Greenspan: “Although the benefits and costs of derivatives remain the subject of spirited debate, the performance of the economy and the financial system in recent years suggests that those benefits have materially exceeded the costs.”
References


