CHAPTER 1

INTRODUCTION: THE PROBLEM AND RATIONALE OF THE STUDY

Banking is a service industry. It is also highly labour intensive and with wide impact over the whole economy of any country. If this sector is managed with efficiency, imagination, vigour and entrepreneurial spirit, it can provide the necessary dynamism for the rapid growth of practically all sectors of the economy.

1.1 THE PROBLEM

The banking industry is different from other industries in several ways. It is a labour intensive multi-purpose service industry. The bulk of its working funds consists of borrowed funds. Its activities are rigidly watched and regulated. The rates for deposits and advances are standardised by the Reserve Bank, whereas for subsidiary services there is little leverage to show concessions. Hence, for the successful marketing of services and for improving profitability, banks will have to solely depend on the efficiency and quality of service.

There are different steps to be taken for the effective functioning of any organisation. They include, selecting the right persons for the right jobs, training and developing them in appropriate skills, compensating them in commensuration with the skill and effort put in, and motivating them towards higher levels of performance.

There is widespread public criticism against banks as regards the deterioration in customer service, mounting arrears of housekeeping, erosion of profitability, etc. Banks seem to have accepted these as inevitable evils of the explosive growth of banking
offices since nationalisation of the fourteen major commercial banks in 1969. As observed by the Banking Commission in 1972: "With the rapid growth and the shift in the emphasis on the objectives, banks have been largely pre-occupied with the problems of recruitment, training and staff relations on the one hand and the need to exercise proper supervision and control over the increasing number of offices on the other. As a result, the question of improvement in the standards of service does not seem to have received sufficient attention of bank managements". ¹

The new branch licensing policy of the Reserve Bank, covering the Seventh Five Year Plan period, focuses on ensuring efficient banking service in the country. The guidelines regarding the Branch Licensing Policy for 1985-1990 states: "It is felt that the banking system in the country has been put to severe strain on account of the phenomenal expansion since 1969. The massive geographical expansion, coupled with large scale growth in the volume of business and clientele, has brought in its wake certain attendant problems affecting the operational efficiency of banks. Banks have been facing difficulties in recruitment, training and placement of staff/officers. There is paucity of experienced staff with the requisite skills and expertise, in many offices. Due to these deficiencies, banks have been finding it extremely difficult to effectively supervise the functioning of their branches. As a result, operational efficiency, housekeeping, customer service etc. in banks have deteriorated. There has been an adverse effect on the profitability of banks. The major task before the banking industry is, therefore, to consolidate the working of the existing branches". ²
There is a general impression that the banking sector of the country is an isolated island of higher wage rates, and that the banks have not benefitted in any way from the attractive pay offered to the employees. It is substantiated by the Committee on Functioning of Public Sector Banks when it observed in 1978: "It has been one-way traffic all the time, banks having got nothing, not even in the matter of better discipline in return for better emoluments to the workmen staff. We can only express the hope that Unions will come to realise that they have a duty to the public and that one way or the other, they must get together with the management and induce their members to turn in a full day's work for a full day's wage". But, organisational effectiveness and performance efficiency cannot be achieved by wishful thinking. The role of personnel management is to plan, develop, administer, evaluate and reform policies and programmes designed to make expeditious use of an organisation's human resources.

The adoption of well-conceived, well designed and well implemented personnel management systems has thus become imperative in the banking sector for two reasons: (a) ensuring that banks are able to attract and retain employees of appropriate aptitude and attitude for effective and efficient performance, and (b) stimulating and motivating these employees to discharge their duties diligently and ardently.

The Banking Commission observed in 1969: "One diseconomy of scale is the labour losing motivation due to sense of insignificance...But, it is possible through the adoption of appropriate personnel management policies, to reduce the incidence
of such diseconomies". Hence the importance of, and need for review and appraisal of personnel policies and practices. The following factors also emphasize the necessity of such evaluation:

(a) Our understanding of the principles and philosophy of personnel management is continuously growing and as a result the policy and practice of personnel management are also constantly changing. (b) With the banking scene changing and becoming more complex, changes have also become necessary in the contents of personnel function. (c) In the past, an employment in bank was not considered attractive on any account. Relatively low wages, long working hours, lack of job security, no fixed increments, and lack of promotion opportunities made the bank employment a career which young men chose for want of better alternative. An entirely different type of manpower comprising bright young men and women, a substantial number of whom possess excellent academic qualifications and achievements, now constitute the human resource of banks. Such changes in the profile of bank employees also call for appropriate changes in the policy and practice of personnel management.

In essence, personnel management function is of cardinal importance, requiring a sophisticated and scientific approach. In a labour-intensive, service industry like banking, productivity and ultimate profitability of the entire organisation depend considerably on the effectiveness with which personnel management function is executed, and the prudence with which personnel problems are handled. It is true that there is no ready made solution applicable to every case. Problems of management of personnel are as complex and as unpredictable as
human beings themselves, but it is possible, in the light of wider experience and research, to indicate the correct approach to a given problem and the framework within which a solution can be sought.

1.2 OBJECTIVES OF THE STUDY

This study is designed:

1. To know the personnel management practices in Kerala-based scheduled commercial banks.
2. To identify the similarities and dissimilarities in the practices, and to examine the factors responsible for such similarities/dissimilarities.
3. To understand the current status of personnel management function in the banks.
4. To evaluate the practices in the light of the principles and theories of personnel management so as to identify the strengths and weaknesses.
5. To suggest changes/improvements for making the personnel management system more effective and efficacious.

1.3 HYPOTHESIS

As this study does not seek to prove or disprove anything, no hypothesis is formulated.

1.4 SURVEY OF LITERATURE

Organised and formal research into banking and related areas did not really take roots in India until early seventies. However, a few studies on the practices in personnel management areas like
recruitment, compensation, promotion etc. have been carried out even before this period, through the mechanism of Tribunals and Commissions. Before 1949, banking was a State subject and the studies of tribunals were restricted to the particular States only. In 1949, the Central Government took over exclusive jurisdiction in the matter of settlement of disputes in banking companies having offices in more than one State, and the Sen Tribunal was constituted in the same year. This is the first study carried out at national level. Regarding the banks of Kerala, the first study was conducted by the Travancore-Cochin Banking Inquiry Commission (1956) under the Chairmanship of Sri K. Ramunni Menon. This Commission was appointed by the Government of India, on the recommendations of the Bank Award Commission, to study comprehensively the problem of the banking system in Travancore-Cochin State. However, an earlier study on the banking system and related aspects in Travancore was carried out by the Travancore Banking Enquiry Committee which submitted its report in 1930. The establishment of the National Institute of Bank Management in 1969 to carry out research into banking-related areas gave stimulus to research activities in different areas including personnel management and industrial relations. Particular mention may be made of the following official studies:

1. The Award of the Sen Tribunal appointed in 1949 could be considered as the first formal study on personnel management practices in national banks. This study covered only those banks which had offices in more than one State and was aimed at resolving certain disputes between banks and their personnel,
regarding service conditions.

2. The award of the Sastry Tribunal (popularly called Sastry Award) appointed in 1952 also studied the personnel management practices relating to areas like recruitment, selection, training, promotion, transfer, compensation etc.

3. In 1954, the Labour Appellate Tribunal while dealing with the appeals preferred from the Sastry Award made a comprehensive examination and evaluation of the practices.

4. A further study was held by the one-man-commission consisting of Shri. P. B. Gajendragadkar in 1955. (This Commission is popularly referred to as Bank Award Commission).

5. The Travancore-Cochin Banking Inquiry Commission under the Chairmanship of Shri. K. Ramunni Menon studied in 1956, the special problems relating to banks in Travancore-Cochin State, including those resulting from implementation of Sastry Award. The Commission made a detailed study of the personnel practices in these banks.

6. Award of the National Industrial Tribunal (Bank Disputes) (1962) with Shri. Justice Kantilal T. Desai as presiding Officer (popularly referred to as Desai Award), makes an evaluation of the personnel management practices in those days.


study on the practices in nationalised banks relating to management of personnel belonging to officer cadre.

9. The Banking Commission (1972) appointed by the Government of India studied various aspects of the banking system in the country. The terms of reference to the Commission included: 'to review the existing arrangements relating to recruitment, training and other relevant matters connected with manpower planning of bank personnel and to make recommendations for building up requisite professional cadre of bank personnel at all levels of management'.

In addition to the aforesaid studies of comprehensive nature, different committees and Working Groups appointed by Government/Reserve Bank also have made studies covering the specified areas. They include:


2. The technical study on development of managerial and other personnel, conducted by B.K. Aggarwal for the Banking Commission (1972).


These and other literature on the subject surveyed and referred during the course of this study are given in the bibliography.
The universe of this study is the eight Scheduled Commercial Banks based in Kerala. They are arranged in Table 1-1 in alphabetical order giving the place of registered office and the class of bank. The classification of the banks into 'A' Class and 'B' Class has been made following the norms laid down in the Fourth Bipartite Settlement. According to this settlement, for the purpose of salary scales and other service conditions of non-officer staff, banks are grouped into two classes - banks with working funds amounting to Rs. 85 crores and above, and all foreign banks are included in 'A' Class; and banks with working funds below Rs. 85 crores are included in 'B' Class.

**TABLE 1-1**

**LIST OF KERALA-BASED SCHEDULED COMMERCIAL BANKS**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of Bank</th>
<th>Place of Registered Office</th>
<th>Cla</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The Catholic Syrian Bank Ltd.</td>
<td>Trichur</td>
<td>A</td>
</tr>
<tr>
<td>2.</td>
<td>The Dhanalekshmi Bank Ltd.</td>
<td>Trichur</td>
<td>B</td>
</tr>
<tr>
<td>3.</td>
<td>The Federal Bank Ltd.</td>
<td>Alwaye</td>
<td>A</td>
</tr>
<tr>
<td>4.</td>
<td>The Lord Krishna Bank Ltd.</td>
<td>Kodungalloor</td>
<td>B</td>
</tr>
<tr>
<td>5.</td>
<td>The Nedungadi Bank Ltd.</td>
<td>Calicut</td>
<td>B</td>
</tr>
<tr>
<td>6.</td>
<td>The Parur Central Bank Ltd.</td>
<td>North Parur</td>
<td>B</td>
</tr>
<tr>
<td>7.</td>
<td>The South Indian Bank Ltd.</td>
<td>Trichur</td>
<td>A</td>
</tr>
<tr>
<td>8.</td>
<td>State Bank of Travancore</td>
<td>Trivandrum</td>
<td>A</td>
</tr>
</tbody>
</table>
Among these banks, State Bank of Travancore is in public sector and all the other seven banks belong to private sector. Out of the total eight banks, four each belong to 'A' Class and 'B' Class. It was intended to select five of these banks for detailed study - three 'A' Class banks and two 'B' Class banks. Accordingly all the banks were requested for permission for collection of data, but permission was granted by only five banks. In spite of reminder letter, permission was not granted by the other three banks. Therefore the five banks which granted permission for collection of data were fixed as the sample banks. Three of these banks belong to 'A' Class and two belong to 'B' Class. Thus the following five banks constitute the sample of this study:

<table>
<thead>
<tr>
<th>Name of bank</th>
<th>Abbreviation used in this report</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Catholic Syrian Bank Ltd.</td>
<td>CSB</td>
</tr>
<tr>
<td>The Federal Bank Ltd.</td>
<td>FBL</td>
</tr>
<tr>
<td>The Nedungadi Bank Ltd.</td>
<td>NBL</td>
</tr>
<tr>
<td>The Parur Central Bank Ltd., and PCB</td>
<td>PCB</td>
</tr>
<tr>
<td>The South Indian Bank Ltd.</td>
<td>SIB</td>
</tr>
</tbody>
</table>

1.6 LIMITATIONS

As State Bank of Travancore, the lone public sector bank based in Kerala did not grant permission for collection of data, this study had to be confined to private sector banks only.
1.7 METHODOLOGY

Almost the entire data used for this study are primary and were collected from the files and other records of the concerned banks. For this purpose, intensive case study of each of the sample units was made. Documents perused for collection of data include correspondence, notes in files, circular letters and circular memos, texts of agreements with employees' unions, service records of employees, statements and reports drafted by the banks - both published and unpublished, explanatory notes for items in the agenda for Board Meetings, etc. Interviews with personnel executives, senior managers and other employees were held to supplement the data collected from documents.

Though the study is contemporary, historical approach is also followed wherever found appropriate.

1.8 PLAN OF THE STUDY

According to Edwin B. Flippo, Personnel Management is the planning, organizing, directing and controlling of the procurement, development, compensation, integration and maintenance of people for the purpose of contributing to organizational, individual and societal goals. This study covers the areas of procurement, development, compensation and maintenance. The 'Integration' part has been excluded because of the constraints of time, and also for the reason that these functions are more closely related to 'Industrial Relations', which this study has not intended to cover. Thus, this report has chapters dealing with the following functional areas of personnel management:
1. Determination of human resource requirements, covering
   Job Analysis and Human Resource Planning.

2. Recruitment and Selection.

3. Training and Development.


5. Promotions, and


The plan followed in presenting the report on each functional area is: discussion of the theories and principles first, followed by an account of the recommendations and suggestions of the different statutory and non statutory studies. Thereafter, description of the practices in the sample banks is made. This description precedes the analysis and evaluation of the practices in the light of the principles discussed in the earlier part of the chapter. Each chapter ends with statement of the findings coming out of the analysis, and the suggestions for improvement.

A substantial part of the data used in this study are unpublished, and some are also of confidential nature. Hence the names of the banks are not revealed at certain places in order to conceal their identity, and to preserve the confidential nature of the data. As the focus of the study is on practices in the specific areas of personnel management rather than on individual banks, it is considered that this would not affect the objects, analyses or findings of the study in any manner.
REFERENCES


5. Ibid, par. 1-5.