2.1 INTRODUCTION

In the introductory chapter statement of the problem, the need for study, methods and methodology, objectives and other points were discussed. In this chapter a brief account of history of development of banks and development of human resource management has been provided. The first part of this chapter explains about development of banks. There is in-depth study of development of banks since I world war. Thereafter, there is thorough study of current banking scenario and banking in Karnataka state. In the second part of this chapter, there is a detailed study of development of Human Resource Management. Thereafter, the function, scope, components, model of human resource management is also discussed. In the last section of this chapter, there is also discussion about the human resource issues in banking industry and SWOT analysis in HR context.

2.1.1 DEVELOPMENT OF BANKS IN INDIA – A HISTORICAL PERSPECTIVE

Banking in India originated in the last decade of the 18th century. The first banks were The General Bank of India, which started in 1786 and the Bank of Hindustan, both of which are now non-operational. The oldest bank in existence in India is the State Bank of India, which originated from the Bank of Calcutta in June 1806, which had later become the Bank of Bengal. This was one of the three presidency banks, the other two being the Bank of Bombay and the Bank of Madras, all three of which were established under charters from the British East India Company. For many years the Presidency banks acted as sub-central banks as did their successors. The three banks merged in 1921 to form the Imperial Bank of India, which upon India’s independence became the State Bank of India.

Indian merchants in Calcutta established the Union Bank in 1839, but it failed in 1848 as a consequence of the economic crisis of 1848-49. The Allahabad Bank was established in 1865 and is still functioning today, it is the oldest Joint stock Bank in India. The honor of the oldest joint stock bank in India goes to the Bank of Upper India, it was established in 1863 and which survived until 1913. When it failed some of its assets and liabilities were transferred to the Alliance Bank of Simla.
When the American Civil War stopped the supply of cotton to Lancashire from the confederate states, promoters opened banks to finance trading in Indian cotton. With large exposure to speculative ventures, most of the banks opened in India during that period failed. The depositors lost money. Subsequently, banking in India remained the exclusive dominance of Europeans for several decades until the beginning of the 20\textsuperscript{th} century.

Foreign banks too started to arrive, particularly in Calcutta, in the 1860’s. The Comptoire d’Escombe de Paris opened a branch in Calcutta in 1860 and another in Bombay in 1862. Branches in Madras and Pondicherry followed then a French colony; HSBS established itself in Bengal in 1869. Calcutta was the most active trading port in India, mainly due to the trade of British Empire and it became a banking center.

The first entirely Indian joint stock bank was the Oudh Commercial Bank, established in 1881 in Faizabad. It failed in 1958. The next was the Punjab National Bank established in Lahore in 1895 which has survived till date and is now one of the largest banks in India.

Around the turn of the 20\textsuperscript{th} Century, the Indian economy was passing through a relative period of stability. Around five decades had elapsed since the Indian Mutiny, and the social industrial and other infrastructure conditions were improved. India established small banks, most of which served particular ethnic and religious communities.

The presidency banks dominated banking in India but there were also some exchange banks and a number of Indian joint stock banks. All these banks operated in different segments of the economy. The exchange banks, mostly owned by Europeans, concentrated on financing foreign trade. Indian joint stock banks were generally under capitalized and lacked the experience and maturity to compete with the presidency and exchange banks.

The period between 1906 and 1911, saw the establishment of banks inspired by the ‘Swadeshi movement’. The swadeshi movement inspired local businessmen and political figures to start banks for the Indian community. A number of banks established then have survived to the present such as Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India.
The favors of swadeshi movement lead to establishing of many private banks in Dakshina Kannada and Udupi District, which were unified earlier and known by the name South Canara (South canara) district. Four nationalized banks were started in this district and also a leading private sector bank. Hence undivided Dakshina Kannada district is known as “Cradle of Indian Banking.”

2.1.2 DEVELOPMENT OF BANKS FROM 1 WORLD WAR TO INDEPENDENCE

The period from the First World War (1914-1918) to the end of the Second World War (1939-1945) and two year thereafter until the independence of India were challenging for Indian Banking. The years of the First World War were turbulent and it took its toll on banks simply collapsing despite the Indian economy gaining indirect boost due to war-related economic activities. At least 94 banks in India failed between 1913 and 1918 as indicated in the following table No. 2

Table No. 2.1

NUMBER OF BANKS FAILED DURING THE YEAR 1913 TO 1918

<table>
<thead>
<tr>
<th>Years</th>
<th>Number of Banks that failed</th>
<th>Authorised Capital (Rs. Lakhs)</th>
<th>Paid-up Capital (Rs. Lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913</td>
<td>12</td>
<td>274</td>
<td>35</td>
</tr>
<tr>
<td>1914</td>
<td>42</td>
<td>710</td>
<td>109</td>
</tr>
<tr>
<td>1915</td>
<td>11</td>
<td>56</td>
<td>5</td>
</tr>
<tr>
<td>1916</td>
<td>13</td>
<td>231</td>
<td>4</td>
</tr>
<tr>
<td>1917</td>
<td>9</td>
<td>76</td>
<td>25</td>
</tr>
<tr>
<td>1918</td>
<td>7</td>
<td>209</td>
<td>1</td>
</tr>
</tbody>
</table>

(Sources: www.rbi.org)

2.1.3 DEVELOPMENT OF BANKS DURING POST-INDEPENDNCE PERIOD

The partition of India in 1947 adversely impacted the economics of Punjab and West Bengal, paralyzing banking activities for many months. India’s independence marked the end of a regime of the Laissez-faire for the Indian Banking.
The Government of India initiated measures to play an active role in the economic life of the nation and the Industrial Policy Resolution adopted by the government in 1948 envisaged a mixed economy. This resulted into greater involvement of the state in different segments of the economy including banking and finance. The major steps to regulate banking included:

- In 1948, the Reserve Bank of India, India’s central banking authority, was nationalized and it became an institution owned by the Government of India.
- In 1949, the Banking Regulation Act was enacted which empowered the Reserve Bank of India (RBI) “to regulate, control and inspect the banks in India.”
- The Banking Regulation Act also provided that no new bank or branch of an existing bank could be opened without a license from the RBI and no two banks could have common directors.

However, despite these provisions, control and regulations, banks in India except the State Bank of India, continued to be owned and operated by private persons. This changed with the nationalization of major banks in India on 19 July 1969.

### 2.1.4 NATIONALIZATION OF BANKS

By 1960 Indian banking industry had become an important tool to facilitate the development of Indian economy. At the same time it had emerged as a large employer, and a debate had ensured about the possibility to nationalize the banking industry. Indira Gandhi, the then Prime Minister of India expressed the intention of the Govt. of India in the annual conference of the All Indian Congress Meeting in a paper entitled “Stray thought on Bank Nationalization”. The paper was received with positive enthusiasm. Thereafter, her move was swift and sudden and GOI issued an ordinance and nationalized the 14 largest commercial banks with effect from the midnight of 19th July 1969. Jayaprakash Narayan, a national leader of India, described the step as a “masterstroke of political sagacity.” Within two weeks of the issue of the ordinance, the parliament passed the Banking Companies (Acquisition
and Transfer of undertaking) Bill and it received the presidential approval on 9\textsuperscript{th} August 1969.

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

2.1.5 DEVELOPMENT OF BANKS AFTER LIBERALIZATION POLICY

In the early 1990’s the Narsimha Rao’s government embarked on a policy of liberalization, licensing a small number of private banks. These came to be known as New Generation tech-savvy banks and included Global Trust Bank (The first of such new generation banks to be set up), which later amalgamated with oriental Bank of Commerce, AXIS Bank (earlier as UTI Bank), ICICI Bank and HDFC Bank. This move along with the rapid growth in the economy of India revitalized the banking sector in India, which has seen rapid growth with strong contribution from all the three sectors of banks. i.e., government banks, private banks and foreign banks.

The next state for the Indian Banking has been setup with proposed relaxation in the norms for Foreign Direct Investment, where all Foreign Investors in banks may be given voting rights which could exceed the present capital of 10\%, at present it has gone up to 74\% with some restrictions.

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

Currently (2007) banking in India is generally fairly mature in terms of supply, product range and reach—even though reaches in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of assets and
capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheet relatively to other banks in comparable economics in its region. The Reserve Bank of India is an autonomous body, with minimal pressure from the government. The stated policy of the Bank on Indian Rupee is to manage volatility but without any fixed exchange rate and this has mostly been true. With the growth in the Indian economy expected to be strong for quite some time especially in its service sector. The demand for banking services, especially retail banking, mortgages and investment services are expected to be strong. One way also expects Merger and Acquisitions, takeovers, and sale of assets.

In March 2006, the Reserve Bank of India allowed Warburg Pincus to increase its stake in KOTAK MAHINDRA Bank (A private Sector Bank) to 10%. This is the first time an investor has been allowed to hold more than 5% in a private sector bank since the RBI announced norms in 2005 that any stake exceeding 5% in the private sector banks would need to be vested by them. In recent years critics have charged the non-government owned banks as too aggressive in their loan recovery efforts in connection with housing, vehicle and personal loans.

According to certain published press statements/reports that the bank loan recovery efforts have driven defaulting borrowers to suicide.

Currently, India has 88 scheduled commercial banks (SCBs) – 27 public sector banks (that is with the Government of India holding a stake), 31 private banks (these do not have government stake; they may be publicly listed and traded on stock exchanges) and 38 foreign banks. They have a combined network of over 53,000 branches and 17,000 ATM’s.

**2.1.6 CURRENT BANKING SECTOR SCENARIO**

Since 1991, India has been engaged in banking sector reforms aimed at increasing the profitability and efficiency of the 27 public sector banks that controlled about 90% of all deposits, assets and credit. There has been radical and perceptible transformation in the operational environment of the banking sector. However, these changes have been induced with a view to develop sound and efficient banking sector in India, at par with international banking standards and practice. The banking sector, which was one of the most protected sectors for five decades in the country and more
precisely the public sector banks were slowly exposed to deregulated environment in slow and phased manner. The Information Technology (IT) revolution is entirely changing the banking business and has considered by widened the range of products and services as well as demands and expectations of customers.

‘Risk management’, ‘Assets’, ‘Liability Management’, ‘product and service Innovations’, ‘securitization’, ‘Relationship Banking Environment Management’ are some of the current buzz words in the banking scene. There has been little important development in response to change forces necessitating the learning phenomenon for the banks.

Some of the issues in the banking sector are, responding to intense competition, changing customer profile, increasing role of IT, innovation, profit orientation assets etc. These developments have implications not only for present but also for the future in terms of operational aspects. The qualitative aspects of change include prudential norms like asset classifications, provisioning capital adequacy, risk management requirements, transparency, corporate governance, changing regulatory supervisory system etc. Banking system remains the focal point in the financial set up of a country and more so in the contexts of a developing country like India.

There is an importance attached to the banking system, in view of their financial intermediary role in payment system. The banking sector is dominated by scheduled commercial Banks (SCBs). According to a report by ICRA limited, a rating agency, the public sector banks owns 75% of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively. Surplus liquidity, slowly rising interest rates, good credit growth, good returns, mergers and status quo on reforms marked the period of 2006-2007.

In banking sector a minimum stipulated Capital Adequacy Ratio (CAR) was introduced to strengthen the ability of banks to absorb losses and the ratio has subsequently been raised from 8% to 9% (1997) at the end of March 2006 despite tightening of prudential norms Capital Adequacy Ratio (%) of the banking sector has increased from 10.4% to 12.8%.

The government has sought to lower its holding in public sector banks to a minimum of 33% of total capital by allowing them to collect from the market. Bank
credit has increased sharply from 30% of G.D.P at the end of March 2000 to 48% at the end of March 2006. Less than 40% of Indian household has a bank account.

The banking industry caters to the following broad categories of products and services:

1) Retail Banking
2) Retail products such as credit cards, debit cards, etc.
3) Portfolio Management, Mutual funds etc.
4) Corporate lending and projects financing (Including loans)
5) Investment banking
6) Foreign exchange trading.

All these areas have attracted substantial foreign interest in the event of the opening up of the Indian economy.

The new private sector banks have witnessed the highest growth in asset at 43.2% during 2005-2006 followed by foreign banks which have grown at 31.2% while public sector banks (PSBs) have reported 13.6% growth during the period, the Reserve Bank of India (RBI) said in its report on trends and progress of Banking in India 2005-2006. Public sector banks have been unable to match asset growth of foreign banks and new private sector during 2005-2006, due to forced liquidation of government securities to meet high credit demand, the report said.

There are some areas that need to be geared up for future growth, identified by the survey. India has become one of the most preferred banking destinations in the world.

The reasons are numerous:

1) The economy is growing at a rate of 8%
2) Bank credit is growing at 30% p.a
3) There is an every-expanding middle class of between 250 and 300 million people in need of financial services.
All this enables double-digit returns on most asset class which is not so in majority of other countries. Indian Markets provide growth opportunities, which are unlikely to be matched by the mature banking markets around the world. Some of the high growth potential areas to be looked at are, the market for consumer finance stands at about 2% -3% of G.D.P., compared with 25% in some European markets and the retail credit is expected to cross Rs.5, 70,000 crore by 2010. SME sector, which contributes significantly to Indian GDP\(^5\).

The Indian Banking Sector has scored over its counterparts not only in developing but even in developed world such as Japan, Singapore and Australia on significant-parameters.

According to MOODY’S Investors service data, Indian lenders have posted highest ROE of 20.38% closely followed by Indonesia at 20.19% and NEW ZEALAND 18.83%. Japan the biggest economy in Asia, posted negative returns of 6.42% implying that the banks there made losses. Banks of Philippines and Australia has posted on ROE of just 4.40% and 11.44% respectively. In this market driven economy, a level playing field is required for PSU banks to compete with new private sector and foreign banks. Banks are setting up alternative delivery channel to maintain operation cost like off-site, ATM’s, Internet Banking, Tele-banking, Outsourcing. Technology has been the key driver for enriching CRM and reduction of operating costs. Developing foresight in anticipating changing risk-return relationships, pricing banks, products appropriately by putting in place efficient asset-liability management and enhancing technical skills to operate modern technology are essential for banks to face the market challenges. The development of the Indian banking system depends on the developments of its human resources and their challenges.

2.2 KARNATAKA STATE IS THE “CRADLE OF BANKING IN INDIA.”

The Karnataka state especially the region comprising of the coastal districts Dakshina Kannada and Udupi is the main support for growth of banking in India.

Because seven of the country’s leading banks, Canara bank, Syndicate Bank, Corporation Bank, Vijaya Bank, KARNATAKA Bank, and Vysya Bank and the State Bank of Mysore originated from this part of the state.

The origin of Banking in Karnataka coastal region can be traced to the year 1868 when the Presidency Bank of Madras opened a branch to cater the British companies involved in exporting plantation produce. In the year 1912, the Indian co-operative societies Act in 1912 further energized the financial sector in this region leading to the establishment of a lot of co-operative societies. The freedom movement of India also played a crucial role in the establishment of KARNATAKA Bank which was created as an offshoot of the swadeshi movement of 1905. These banks were earlier created to address the main sector in the economy i.e. agriculture but later they diversified to address other economical sectors as well.

As of today, State Bank of Mysore, Canara Bank, Vijaya Bank and Vysya Bank has their headquarters in Bangalore. Corporation Bank and KARNATAKA Bank have headquarters in Mangalore while syndicate Bank is headquartered at Manipal in Karnataka as on 31st March 2009.

The Indian Government notification of nationalization of banks in the year 1969 and 1980 resulted in these banks being nationalized. The Government now has some amount of control on these banks

2.3 HUMAN RESOURCE MANAGEMENT (HRM) –HISTORICAL BACKGROUND

Philosopher says that communication is the oldest existential phenomenon on the earth. Well, if that is the case then human resource management would get the second place in the sibling hierarchy. In spite of being added as a subject in management courses fairly late, HRM has been a concept that was utilized ever since human beings started following an organized way of life.

Some of human resource management's vital principles were used in prehistoric times. Like, mechanisms being developed for selecting tribal leaders. Knowledge was recorded and passed on to the next generation about safety, health, hunting, and gathering. 1000 B.C to 2000 B.C saw the development of more advanced
HR functions. The Chinese are known to be the first to use employee screening techniques, way back in 1115 B.C. And turns out, it was not Donald Trump who started "the apprentice" system. They were present in Greek and Babylonian civilizations, ages before the medieval times.

HRM has seen a lot of nick naming in its age. Since, it was recognized as a separate and important function. It has been called "personnel relations" then it evolved as "Industrial Relations", then "Employee Relations" and then, finally, to "human resources". I strongly believe that human resource is the most apt name for it. It, quintessentially, proves the importance of the human beings who are working in the organization.

With the industrial revolution, came the conversion of the US economy from agriculture-based into industry-based. This led them to acquire an extremely well-organized structure. Further, this led them to recruit a lot of people. More so, the industrial revolution brought in maddening amount of immigration. Again, to create employment for all the immigrants, recruitment and management of the recruited individuals gained vitality. As such, there was a strong need for Human Resource Management.

Early human resource management, in general, followed a social welfare approach. It aimed at helping immigrants in the process of adjusting to their jobs and to an "American" life. The main aims behind these programs were to assist immigrants in learning English and acquiring housing and medical care. Also, these techniques used to promote supervisory training to ensure an increase in productivity. With the advent of "labour unions" in the 1790’s, the power in the hands of the employees multiplied considerably and increased at a rapid pace by the 1800s and furthermore in the 1900s. This led to the HR department being more capable of politics and diplomacy. The two feats that were quintessential to the importance of HR were the fact that it was the HR department that got the management and the labour unions to come on common grounds. They basically worked on getting the management to see things from the labour perspective and grant them medical and educational benefits. The other would be Frederick W. Taylor's (1856-1915) book on ‘Scientific Management’. This book had tremendous impact on attaining better productivity from low-level production workers.
B.F. Goodrich Company was the pioneers in designing a corporate employee department to address the concerns of the employees in 1900. National Cash Register followed suit in 1902 by forming a separate department to handle employee grievances, record keeping, wage management and other employee-related functions. Personnel Managers started seeing more sunshine since the Wagner's Act (aka National Labour Relations Act) in 1935. There was a shift in focus from workers efficiency to efficiency through work satisfaction, thanks to the Hawthorne studies around the 1930s to 1940s.

Between the 1960s and 1970s, the HRM movement gained further momentum due to the passing of several acts like the Equal Pay Act of 1963, the Civil Rights Act of 1964, the Employee Retirement Income Security Act of 1974 (ERISA), and the Occupational Safety and Health Act of 1970. Now, the HR department is the apple of the corporate eyes because, the corporate give a lot of importance on human resource management to avoid plausible law suit.

So by the end of the 1970s, HRM had taken over the world! Almost all big and medium scale industries had a department to manage their recruitment, employee relations, record-keeping, salaries and wages, etc. Towards the 1980s, the importance of HR continued to intumesce for several reasons like increase in skilled labour, training, regulation compliance, dismissal, etc. The HR managers were the ones who did the hiring and the firing. In today's date, HR has the same importance as the other departments, and in some corporate, it has more. With the constant increase in education, technology and frequent fluctuations in economic status and structures, I believe, HR is the oldest, most mature and yet, the most efficient of all management styles.

2.3.1 HUMAN RESOURCE MANAGEMENT: ORIGIN AND GROWTH

The utilization of people at least in rudimentary form can be traced to ancient times. Efforts towards good use of talents, even though informal in nature, were undertaken whenever people came together in a community.

The history of HRM can be characterized as moving through four broad phases-the craft system, scientific management, the human relations approach and the current organizational science-human resource approach. Industrial revolution, led to
development of the assembly line, which in turn led to the hiring of many low skilled employees. But by late 1800s the focus on workers intensified from a variety of quarters. As people become more aware of hazardous working conditions, heavy dependence on child labour and low wages, unions began to be formed and demand the right to organize and negotiate for higher wages.

Historians generally agree that National Cash Register (NCR) was the first business to have a human resource department, which was created by the company president as a response to a major strike by the union.

As employees entered the 20th Century recognition of the importance of human resource practice grew. In 1913, Ford Motor Company doubled its wages in order to decrease its turnover rate.

The early part of the 20th century witnessed the development of two approaches to managing human resources—scientific management of Taylorism, which sought to design jobs to maximize efficiency, and personnel psychology, which emphasized the testing of people’s ability for the purpose of identifying the best candidates for each job.

Columbia University offered the 1st HR course in 1920. The next major events in HR field was a series of work place studies generally referred to as Hawthorne studies which was completed in 1930s and examined the effect of illumination, pay incentives and rest breaks on work productivity.

The demand for HR programmes heightened during World War II as a result of mass drafting by the armed forces and employment of women in manufacturing jobs previously occupied by men.

After World War II and during 1950s and 1960s quality of work life (QWL) become a major concern for business and industry and studies by Dr. Herzberg and Dr. Hackman and Oldham indicated the importance of intrinsic rewards, programmes that modified job to increase workers responsibility, recognition and enjoyment of the work itself.

HRM appears to have its origin in the United States in 1950s, although it did not gain wide recognition until the beginning of 1980s and in United Kingdom until the mid to late 1980s.
By the mid 1970s, global competition had become a serious issue for business in the U.S and HR became an increasingly important function in many organizations. The last decade of the 20th century began with a major recession in the United States, which resulted in a period of limited demand for employees.

Large organizations continued to face serious competition and chose to cut their work force. However, at the end of 1990 U.S companies began to prosper and experienced shortage of qualified applicants in many positions. By contrast, Asian countries, once heralded as the economic giants of 21st century, experienced major financial crises and employees were losing their jobs in these countries. These rapid changes in supply and demand for employees and goods and services have led to increased interest in human resource management processes.

### 2.3.2 HUMAN RESOURCE MANAGEMENT-GROWTH IN INDIA

In India the origin of human resource management can be traced to the concern for welfare of factory workers during 1920’s. Setting up of ‘Royal Commission on labour’ during 1929 and recommendation of the commission in 1931 to abolish jobber system and to appoint labour officers in the Industries to look after recruitment and welfare of employees indicate the special significance to the subject. After the attainment of independence, the Government under the revised factory Act of 1948 (Section 49) made it obligatory for the factories employing 500 or more workers to appoint welfare officers.

Larsen and Toubro was the first company that introduced HRD in India in 1974 and subsequently some of the leading public sector undertaking like BHEL, HMT, HAL, OIL, SBI, Bank of Baroda and private sector undertaking like ACC, Crompton greaves Ltd, Dunlop India Ltd, Hindustan Lever Ltd, Volta’s Ltd, and Indian Rayon have introduced HRD in their respective organizations. In 1986, Government of India created a ministry for HRD when late Shri. Rajiv Gandhi was the Prime Minister.
2.3.3 HUMAN RESOURCE MANAGEMENT: A CONCEPTUAL ANALYSIS

Human resources are the principle component of an organization. From the national perspective, human resource consists of knowledge, skills, creative abilities, talents and aptitudes obtained in the population. Viewed from the individual enterprise, human resource represents the total of the inherent abilities, acquired knowledge and skills as exemplified in the talents and aptitudes of its employees. JUCICS calls these resources “Human factors”\(^6\) that refer to a whole consisting of interrelated, independent and interacting physiological, psychological, sociological and ethical components.

Human resource is identified as human capital by economic thinkers like SIMON KUZNENTS and some others. FLUNDER D.J has observed “seen against this wider background the term human capital resumes its place as a useful and to some extent operative concept which has made it possible to focus economic analysis on a hitherto over neglected factor of growth and to underline the need to maintain a balance to determine an optimum between physical investment and training of human beings. We can restore man to his due place in the economic system and the community without going to the length of reducing him to a machine”\(^7\).

Theodore SCHULTZ\(^8\) has observed “Among the few who have looked upon human beings as capital there are three distinguished names. The philosopher-economist Adam Smith boldly included all of the acquired and useful abilities of all of the inhabitants of a country as a part of capital so did.”

H.VON THUNEN\(^9\) who then went on to argue that the concept of capital applied to man did not degrade him or impair his freedom and dignity. Schultz has further elaborated by saying that human resource obviously has both quantitative and qualitative dimensions. The numbers of people, the proportion that enters upon useful work and hours worked are essentially quantitative characteristics. The quality components of human resource are skills, knowledge and similar attributes that effect particular human capabilities to do productive work.

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\(^7\) Flunder ‘Human capital’ Management journal, mar 2008 edition, pp 24-25
Human resource is the most important asset. Hence its development needs to be properly planned. This involves investment in man, which is considered indispensable by HARBISON\textsuperscript{10}. The innate capabilities and talents are to be developed and effectively utilized. Development of human resource is the process of increasing knowledge, skills and the capabilities of all the people in the society. HARBISON has described it as the accumulation of human capital and its effective investment in the development of the economy. Investment in human resource is the key to high-level manpower or disciplined labour force with skills, knowledge foresight and responsiveness.

Human resource management means employing people, developing their resources utilizing, maintaining and compensating their services in tune with the job and organization requirements with a view to contribute to the goals of the organization, individual and the society.

MICHAEL J JUCIUS defined Personnel Management as “the field of management which has to do with planning, organizing, directing and controlling the functions of procuring, developing, maintaining and utilizing a labour force, such that the:

a) Objectives for which the company is established are attained economically and effectively.

b) Objectives of all levels of personnel are served to the highest possible degree, and

c) Objectives of society are duly considered and served.”

Human Resource Management (HRM) can be defined as managing (Planning, organizing directing and controlling) the functions of employing, developing and compensating human resource resulting in the creation and development of human relations with a view to contribute proportionately (due to them) to the organizational, individual and social goals.

According to L.F. URWICK “business houses are made or broken in the long run not by markets or capital, patents or equipment but by men”.\textsuperscript{11} of all the resources manpower is the only resource, which does not depreciate with the passage of time.

In generic terms human resources can be defined as the total knowledge, skills, creative abilities, talents and aptitudes of an organizations work force as well as the values, attitudes, approaches and beliefs of the individual involved in the affairs of the organization. It is the total or aggregate of inherent abilities acquired knowledge and skills represented by the talents and aptitude of the employed persons in an organization.

BEER M. et al\textsuperscript{12} has defined HRM as “programs, policies and practices for managing an organization’s work force.”

In the words of EDWIN, B FLIPPO\textsuperscript{13} “ Personnel or Human resources management is the planning organizing, directing and controlling of the procurement, development, compensation, integration, maintenance and reproduction of human resources to the end that individual organizational and societal objectives are accomplished”.

According to WENDELL FRENCH\textsuperscript{14} “Human resource management is the systematic control of a network of interrelated processes affecting and involving all members of an organization.”

DECENZO AND ROBBINS\textsuperscript{15} have defined HRM as “a process consisting of four functions acquisition, development, motivation and maintenance of human resource. In less academic terms we might describe these four functions as getting people, preparing them, activating them and keeping them”.

Thus, human resource management is the process of managing the people of an organization with a human approach. It is a system that focuses on human resources development, on the one hand, and effective management of people on the other.

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\textsuperscript{14} Wendell French, HRM review, Jan 2002 ed., pp 43-45.
\end{flushleft}
2.3.4 HUMAN RESOURCE MANAGEMENT: NEED AND IMPORTANCE

Human resource is of paramount importance for the success of any organisation. It is a source of strength and aid. Human resources are the wealth of an organisation which can help it in achieving its goal. Effective organisations are increasingly realizing that, of the varied factors that contribute to performance, the human element is clearly the most critical. Regardless of the size or nature of an organisation, the activities it undertakes, and the environment in which it operates, its success is determined by the decision its employees make and the behaviours in which they engage. Managers at all levels in organisation are becoming increasingly aware that a critical source of competitive advantage often comes not from having the most ingenious product design or service, the best marketing strategy, state-of-the-art technology, or the most savvy financial management but from having the appropriate system for attracting, motivating, and managing the organization’s human resources (HR). “The purpose of Human Resource Management is essentially to enhance the efficiency of the organization, to allow and indeed nurture the personal growth and well-being of the staff and to create a facilitating environment and an organizational culture that removes impediments and irritants and fosters a feeling of pride and belonging – an internal brand building.”

2.3.5 HUMAN RESOURCE MANAGEMENT MODEL

Human Resource Management Model presented in chart 2 reveals how the human resource management activities come to bear on an organization’s, environment, employees, jobs, job outcomes and organizational outcome. All of these forces are in turn affected by organizational external environment.

16 Speech by Mr V Leeladhar, Deputy Governor of the Reserve Bank of India, on the occasion of the centenary celebrations of the Corporation Bank, Bangalore, 12 March 2005.
**Chart No. 2.1**

**HUMAN RESOURCE MANAGEMENT MODEL**

<table>
<thead>
<tr>
<th>External Environment</th>
<th>Organizational Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy</td>
<td>Managements Goal and Values</td>
</tr>
<tr>
<td>Government</td>
<td>Corporate culture</td>
</tr>
<tr>
<td>Labour Market</td>
<td>Strategy</td>
</tr>
<tr>
<td>Competitors</td>
<td>Technology</td>
</tr>
<tr>
<td>Demographics</td>
<td>Structure</td>
</tr>
<tr>
<td></td>
<td>Size</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Human Resource functions</th>
<th>Organizational outcomes, survival competitiveness, Growth, Profitability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning for organizations, jobs and people</td>
<td>Employees, Motivation, Abilities, Interests, Personality, Attitudes</td>
</tr>
<tr>
<td>Strategic HRM</td>
<td>Jobs Requirements, Rewards, Performance, Productivity, Quality, Satisfaction, Retention</td>
</tr>
<tr>
<td>Human Resource Planning</td>
<td></td>
</tr>
<tr>
<td>Job Analysis</td>
<td></td>
</tr>
<tr>
<td>Acquiring Human Resources</td>
<td></td>
</tr>
<tr>
<td>EEO</td>
<td></td>
</tr>
<tr>
<td>Recruiting</td>
<td></td>
</tr>
<tr>
<td>Selection</td>
<td></td>
</tr>
<tr>
<td>Building Performance</td>
<td></td>
</tr>
<tr>
<td>Human Resource Development</td>
<td></td>
</tr>
<tr>
<td>Human Resource Approaches to improving competitiveness</td>
<td></td>
</tr>
<tr>
<td>Rewarding employees</td>
<td></td>
</tr>
<tr>
<td>Performance Appraisal</td>
<td></td>
</tr>
<tr>
<td>Compensation and Benefits</td>
<td></td>
</tr>
<tr>
<td>Maintaining Human Resources</td>
<td></td>
</tr>
<tr>
<td>Safety and health</td>
<td></td>
</tr>
<tr>
<td>Labour Relations</td>
<td></td>
</tr>
<tr>
<td>Selection out</td>
<td></td>
</tr>
<tr>
<td>Managing Multi-national HRM</td>
<td></td>
</tr>
<tr>
<td>Making the change to strategic HRM</td>
<td></td>
</tr>
</tbody>
</table>

2.3.6 SCOPE OF HUMAN RESOURCE MANAGEMENT

The Indian Institute of Personnel Management has described the scope of human resource management as follows

i. **The Labour or Personnel Aspects**

   It is concerned with manpower planning, recruitment, selection, placement, induction, transfer, promotion, demotion, termination, training and development, lay off and retrenchment, wage and salary administration, incentives and productivity etc.

ii. **The Welfare Aspect**

   This aspect is concerned with working conditions and amenities such as canteen, rest room, lunch room, housing, transport, education, medical help, health and safety, washing facilities, recreation and cultural facilities.

iii. **The Industrial Relation Aspect**

   This aspect is concerned with the company’s relations with the employees. It includes union-management relation, joint consultations, negotiating, collective bargaining, grievance handling disciplinary action, and settlement of industrial disputes.

2.3.7 COMPONENTS OF HUMAN RESOURCE MANAGEMENT

The human resource management consists of the following important components.

**Chart No. 2.2**

**HUMAN RESOURCE MANAGEMENT COMPONENTS**

```
HRM Components
   ↓
HR Organization    HR Planning    HR Systems    HR Development
   ↓    ↓    ↓    ↓
HR Relationship    HR Utilization    HR Accounting    HR Audit
```

31
a) **Human Resource Organization**

The main objective of human resource organization is to ensure that every aspect of the organization, employment, motivation and management of people is integrated with the strategic objectives of the business and contribute to the successful achievement of those objectives. It is mainly concerned with achieving success by organization design and development, motivation, the application of effective leadership and the process of getting across the message about what the enterprise is setting out to do and how it proposes to do it.

b) **Human Resource Planning**

Human resource planning is concerned with the estimation of number of persons required and type of persons required by an organization at present and in the future in terms of their expertise and how they fit the corporate culture.

c) **Human Resource System**

These are the essential programmes needed to recruit, appraise, pay and look after the health, safety and well being of the employees in the organization.

d) **Human Resource Development (HRD)**

Human Resource Development programmes help to ensure that the organization has the people with the skill and knowledge it needs to achieve its strategic objectives. They aim at training new employees to the level of performance required in their jobs quickly and economically and to develop the abilities of existing staff so that performance in their present jobs is improved and they are prepared to take an increased responsibility in the future. Thus, the main focus of HRD is on training and development.
e) Human Resource Relationship

It is mainly concerned with the handling of employees individually and collectively as members of trade unions or staff association. It is intended to increase co-operation and trust and to involve employees actively in the company’s affairs.

f) Human Resource Utilization

For full utilization of human resource and to achieve productivity through people it is very essential to treat people as adults, as partners and treating them with respect and dignity.

g) Human Resource Accounting

Human resource accounting is the measurement of the cost and value of people to organizations and involves measuring the costs incurred on recruiting, selecting, hiring, training and developing employees and judging their economic value to the organization.

h) Human Resource Audit

Human resource audit is a vast subject and covers many delicate aspects of human and organizational interactions. Auditing in the field of human resources is a difficult job, because the HRD auditor has to deal with individual’s vis-a-vis organizational priorities.
Chart No. 2.3

FACTORS INFLUENCING HUMAN RESOURCE MANAGEMENT

Managerial Philosophy

Employee Value & Expectations

Technology

Governmental Pressures

Market Conditions

Labour Union Pressures

HUMAN RESOURCE MANAGEMENT systems in given organizations

2.3.8 FACTORS INFLUENCING HUMAN RESOURCE MANAGEMENT

Figure 2.2 reveals that human resource management is influenced by mainly 2 factors, namely 1) Internal factors and 2.) External factors

Managerial philosophy, employee values, expectations and technology are internal factors while government pressure, market conditions and labour union pressures are external factors.

INTERNAL FACTORS

(a) Managerial Philosophy

Miles provides a very useful categorization of managerial philosophies. He finds that the philosophies of most managers fall into three broad categories; Traditional, Human relations and Human resources.

Traditional Philosophy

Traditional managers are most concerned with production efficiency and accomplishment of task goals. They are likely to structure and closely supervise the work of subordinates. They take it for granted that economic incentives are the primary motivators for work effort. They assume that if the work is well laid out and employees know their tasks, greater efficiency will result. This will be translated into greater profits which will result in higher wages and benefit for the employees.

Human Relations Philosophy

Human relation philosophy gained importance in the late 1930s with the publication of Hawthorne studies conducted by Elton Mayo and his associates at the Hawthorne plant of Western Electric Company during the late 1920s and early 1930s. The study led many to believe that management must concern itself with the social and psychological needs of employees and it was assumed that satisfying their needs would help them to be more productive.

Human Resource Philosophy

Human resource philosophy assumes that the most realistic way of viewing the work situation is by recognizing a trade off between the employee and the firm. In other words, the employees work towards the accomplishment of organizational goals with
understanding that firm will lead them in meeting their own goals at the same time. Both parties take a realistic stand of self-interest while recognizing mutual interdependence.

**b) Employee Needs, Values and Expectations**

Employees’ needs, values and expectations have a considerable easing on human resource management. Employees bring to the job a particular set of needs, values, attitudes and expectations often based upon experiences the employee has had in other jobs. There are some employees who are most comfortable with being passive and non-assertive; there are others who may lose respect for their boss, if the boss is too considerate. Another set of employees are conditioned to distrust anything that management says or does and there are others who are relatively uncommitted to their work and want a nice cushy job that does not require too much effort or psychic energy.

**c) Technology**

Technology is an important internal force that determines the options available to those persons responsible for human resource management in the firm. Technology becomes a constraint when a desirable job design cannot be carried out because of inability to adopt, existing technical means to the new design. Studies by Walker and Guest of the assembly line in the 1950s showed how the design of the automobile assembly line seriously limited the opportunities for challenging work, varying tasks and on the job conservation.

**EXTERNAL FACTORS**

**a) Governmental Pressures**

Laws and government policies especially with reference to recruitment of employees, compensation, employee treatment, health and safety and employee benefit have considerable influence on human resource management.

**b) Market Conditions**

Market conditions like supply and demand for labour and competitive product market considerations have a bearing on human resource management.
c) Labour Union Pressure

Unions are a source of pressure on management for recognition of workers union, payment of wages and salaries, extension of facilities both statutory and non-statutory treatment of employees etc. Unions also apply pressure indirectly by means of lobbying for government regulation of employment practice, workers participation in management and profit sharing scheme etc.

2.3.9 FUNCTIONS OF HUMAN RESOURCE MANAGEMENT

Chart No. 2.4

FUNCTIONS OF HUMAN RESOURCE MANAGEMENT

Managerial Functions
- Planning
- Procurement
  - Job Analysis
  - HR planning
- Organizing
  - Recruitment
- Directing
  - Selection
- Controlling
  - Placement
  - Introduction
  - Transfer
  - Promotion
  - Separation
- Development
  - Performance
  - Appraisal
  - Training
  - Executive
  - Development
  - Career planning & Development
- Compensation
  - Job evaluation
  - Wage & Salary administration
  - Bonus & Incentives
  - Payroll
- Integration
  - Motivation
  - Job satisfaction
  - Grievance & Redress
- Integration
  - Collective Bargaining
- Integration
  - Conflict Management
- Integration
  - Participation of Employees
- Integration
  - Discipline
- Integration
  - Maintenance
- Health
- Safety
- Social security
- Welfare
- Personnel records
- Personnel Research
- Personnel Audit

(Source: Gupta C.B (Dr.) HRM sultan Chant and Sons, New Delhi 1997. p.1.15)

2.4 HUMAN RESOURCE MANAGEMENT IN BANKS

The banking industry has already begun the process of redefining its boundaries, refining its products and services, providing alternate delivery channels
and improving the flexibility of such delivery to cater to all the financial intermediation requirements of the customers.

The success of the banking industry will be broadly depends on how it responds to the following challenges:

a) Technology upgradation
b) Customer oriented
c) Response to competition
d) Transparency/Accountability
e) Skilled workforce

**Skilled workforce:**

HR practices and training is engaging the immediate attention of banks these days. HRM strategies include managing change, building up a team of committed human capital and improving teamwork. Knowledge levels are very important and sufficient training should be afforded to the staff. The existing staff will have to upgrade their skills to keep pace with sweeping changes that are taking place on the technology front in Indian Banks. Only this will help in improving the quality of service to the customers as well as justify the investments made in technology and the salaries paid.

**2.4.1 HUMAN RESOURCE ISSUES IN BANKING:**

According to the Hudson report (2008) the critical HR challenges are hiring right staff, retaining talent, cutting staff, staff development, salary inflation, external threats, etc. the other challenges are changing working conditions, re-skilling, compensation, etc.

1. Most of the private sector banks operating in India will not involve employees in designing the Human Resource Polices. This creates a communication gap between the employees and Bank management.
2. In most of the private sector banks, induction programme will not be arranged. This creates a lot of problem to the newly appointed employees to adjust with banking culture/environment.

3. In most of the private sector banks, selection criteria are not well defined. Back door entry or selection of an influential candidate is common.

4. In most of the private sector banks, training is not compulsory. So newly appointed employees will face the problem. This leads to low productivity.

5. In most of the private sector banks, placement policy of the bank is not well defined.

6. Most of the private sector banks will not communicate the performance appraisal methods to their employees. So it creates doubt in the minds of good performing employees that leads to low job satisfaction.

7. In most of the old generation banks compensation is far less than Nationalized Banks.

8. In most of the private sector banks, an employee union does not exist. If it exists it is not well organized. So no one will take care of employees.

9. In most of the private sector banks, promotion policy and increment policy will not be communicated.

10. In most of the private sector banks, management will not encourage for higher education.

11. In most of the private sector banks, working time/environment is too hectic. This leads to low productivity.
2.4.2 SWOT ANALYSIS OF INDIAN BANKS (IN HR CONTEXT)

Table No. 2.2

SWOT ANALYSIS OF INDIAN BANKS (IN HR CONTEXT)

<table>
<thead>
<tr>
<th>Strength</th>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td>* High skilled personnel in middle and low level in the banks</td>
<td>* Poor technology infrastructure</td>
</tr>
<tr>
<td>* Aggression towards the development of the Existing standards</td>
<td>* Presence of more number of smaller banks that would likely to be impacted adversely</td>
</tr>
<tr>
<td>* Strong regulatory impact by central bank to all banks for implementation.</td>
<td>* Poor compensation system</td>
</tr>
<tr>
<td>* Presence of intellectual capital to face the change in implementation with good quality</td>
<td>* Poor talent management</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Availability of fresh talent employees to strengthen the banking operation</td>
<td>* Inability to meet additional capital requirements</td>
</tr>
<tr>
<td>* Increasing risks management expertise</td>
<td>* Huge investment in technologies</td>
</tr>
<tr>
<td>* Need significant relations among business, credit and risk management and information technology</td>
<td>* Entrance of foreign banks to capture talent HR.</td>
</tr>
<tr>
<td></td>
<td>* Increasing the cost of human capital.</td>
</tr>
</tbody>
</table>


SWOT analysis indicates number of strength, and opportunities to grow in the competitive directions. However, the weaknesses and threats are also serious and need attention immediately. While there is presence of intellectual capital, there is also a threat of increasing the cost of human capital.

Talent management has been neglected over the years. The compensation system needs to be given a fresh look. Technology upgradation and interaction needs to be brought to international standards. The presence of competitions from public and private spare proves to be a serious threat to performance in banks.
Talent acquisition and retention of skilled workforce is posing as a biggest challenge.

2.5 CONCLUSION

Banking Industry has witnessed tremendous growth all over the world. In India the private sector banks showed a remarkable development. But there are certain issues and challenges. The success of the banking industry broadly depends on how it responds to those challenges.