CHAPTER - I

INTRODUCTION

This chapter elaborately explains the Banking Industry in brief, Objectives of the study, the population, sampling methodology, pilot study, source of study, tools for data collection, the hypothesis of the study, analysis and statistical techniques used, area of study, list of banks covered in the study and the scientific procedure adopted to select and obtain data from the respondents.

1.1 INTRODUCTION

In the early days the main banking function of the goldsmiths was to keep in custody other people’s money and lend a part of it. Gradually, these functions were extended, and others were added. As a result, the dependence of commerce upon banking has become so great that in the modern money economy, the cessation, even for a day or two, of the banker’s activities would completely paralyse the economic life of a nation.

1.2 BANKING IN INDIA

Banking in India in the modern sense originated in the 18th century. The first banks were the Bank of Hindustan (1770-1829) and the General Bank of India established in 1786. The Reserve Bank of India was established in the year 1935. In 1969 The Indian Government Nationalized all the major banks that it did not own already and these have remained under Government ownership. They are run under a structure known as Public Sector undertakings. They operate as commercial banks. The Indian Banking sector is made up of Public sector banks, The State Banks which have been joined since 1990’s, the private sector Banks and a number of foreign banks. Banks provide various services to customers. Banking services are based on human interactions. Banking is a huge industry that comprises of large Number of Employees. Human Resource is the foundation of Banking Industry. Human Resource Management enhances Banking services provided and performance efficiency of banks.
Now-a-days, the bankers have to deal with many matters. They serve as custodians of stocks and shares and other valuables. Imports into and exports out of a country are financed by banks and documents relating to the goods so imported and exported, at one time or another, pass through the hands of the bankers. They have to deal not only with bills of exchange, but also with bill of lading, railway receipts, warehouse warrants and receipts, marine insurance policies and various other documents. As bankers, they advance money on securities, and issue letters of credit, travelers cheque, credit cards and circular notes to customers wishing to travel abroad, as also to effect purchases and shipment of goods.

They are often required to countersign indemnities and guarantees given by their customers and they undertake the administration of estates, assuming the position of trustees; they assist industrial undertakings by underwriting their shares and debentures, providing them with working capital finance and fixed capital requirements also. On behalf of their customers, they carry on correspondence with income tax authorities, make periodical payments such as rents, taxes, subscriptions etc. and on instructions from their customers, act as executors of their customers wills; in short, they do all they can assist their customers. Ramesh Chander Jindal (2010) certainly pointed out that Indian Banks have to revisit their products and the strategy for catering customer service keeping in view the tastes and requirements of their customers of all type in the competitive environment. The more highly developed a country is, the greater is the instrumentality of the banker utilized to carry through commercial transactions.

In India, the banking industry has entered several new activities in the areas of merchant banking, leasing housing finance, venture capital and financial services in general. The range of services provided by the banks stretches from rural finance at one end to international banking at the other. The banking scenario worldwide is now undergoing a rapid diversification and technological change and Indian banking is not an exception with the changing policy of the Government of India in the areas of industrial, trade and exchange rate policies. The functions of the bank have changed to cope with the changes.

The development of new technologies has profoundly changed the way in which customers interact with service providers. Indian banking sector has to face the most crucial challenge, the customer satisfaction. It is an important issue for all marketers. Customer
satisfaction is considered the essence of success in today’s highly competitive world of business. A number of studies, clearly, point out that the new generation banks focus on the customer – understanding his needs, prompting him and consequently delighting him with various configurations of benefit and a wide portfolio of products and services (Gani and Mustaq, 2003). A good customer service in banks should have three basic tenets – courtesy, accuracy and speed (Ganesh, C and Varghese, M.E., 2003).

Now-a-days, with the increased competition, quality of service has become a popular area and has been recognized as a key factor in keeping competitive advantage and sustaining satisfying relationships with customers (Zeithmal et.al 2000). Service quality can be defined as the difference between customer expectations of service and their perception.

When expectations are greater than performance, then the perceived quality is less than satisfaction and customer dissatisfaction occurs (Parasuraman et.al., 1985). Service quality is a concept that has aroused considerable interest and debate in research as difficulties in both defining and measuring it with no overall consensus emerging on either occurs (Wisniewski, 2001). Customer perceptions and preferences of service quality have a significant impact on a bank’s success (Mouawad and Kleiner, 1996).

Delivering quality service is imperative to have customer orientation as a culture in the bank. The customer orientation builds long term relationship resulting in customer satisfaction (Swaroop, K.S., 2004). Customer focusing is not being viewed as just a business strategy but should become a corporate mission (Shankar, A.G., 2004).

Liberalisation process that was initiated in India in 1991 posed some challenges for the bankers to act more efficiently. Before 1991, competition was restricted and safety was ensured which made many public sector banks unprofitable. To create competitive spirit among the institutions and to enable them to improve their efficiency, many private banks and foreign banks were allowed to do business in our country.

The Indian banking has seen momentous changes in the post-liberalization era. It has witnessed a remarkable shift in its operating environment during the last decade. Every aspect of
the functioning of the Indian banking industry is undergoing dramatic changes. The market has changed drastically and has become largely customer centric.

In these days of intense competition, the banks are very particular in identifying the needs of their customer and how effectively that can be met. They continuously struggle and develop new strategies to differentiate themselves from their competitors by providing their customers with high quality banking services and high technology innovative products.

It is to be noted here that technical superiority and innovative products alone will not bring success; it is the quality of service determines the success of any bank. As pointed out by Taylor and Baker in 1994 and Cronin and Taylor in 1992, service quality has become a critical perquisite for satisfying and retaining valued customers in banks. Rendering quality service to satisfy and retain customers is the key to success in banking business.

For a service sector like banking industry, the whole range of activity and generation of income swivels around the customer. It is certainly necessary to identify the key success factor in terms of customer satisfaction. Quality of service rendered by banks play a very vital role for satisfying the customers. Service quality is defined as “a global judgement or attitude, relating to the overall superiority of the service” (Parasuraman et.al, 1998).

In India, the PSB’s and old private sector banks realized their new role and also welcomed the new generation banks – HDFC bank, ICICI bank, IDBI bank, Axis bank, etc. These new banks had the advantage of starting with a clean slate, adequate capital resources, well trained and professional manpower, handful of branches in chosen centres, new variety of products and services etc.

John Armstrong, banking industry leader with IBM Global Business services, said that, “the goal of exploring customer satisfaction is that if they are happy, they are more likely to deepen their relationship or stay with that bank than of they are unhappy”. Human Capital Management is essential for an effective management of any organization in this era of Globalization and Modernization. Recent techniques and technologies have not only been the magnetic power in IT Sector but also in the management of Human Resource Management. It is very necessary to study the new concepts and techniques in People management. People
Management is of primary importance always. Even for the implementation of a brand new and highly influential technology human beings are the only source. Investment in Human Capital is necessary for any nation to reap the benefits from information technology. Sound Human Management is the need of the hour. To cope with high competition and achieve competitive edge in a scenario of high advancements equipping, guiding, moulding and refining an employee is the duty of the organization. Hence, organizations cannot be stagnant with its management techniques. A new boon to people management is Human Capital Management. Updating Human Resource Management to Human Capital Management is a call for acquiring world class Human Capital. Implementing Human Capital Management in Banks is planting stronger roots for future financial success in the country. Implementing Human Capital Management in Banks in India is a necessity.

Hence the researcher has made an attempt to study the Human Capital Management in the Banks in India.

1.3 PROBLEM OF STUDY

There are various research studies conducted in regard to Human Capital Management in the International level. In India, in the recent times there are numerous conferences, seminars conducted and researches done on Human Capital Management. As the literature was closely followed, there was an area that was not touched with reference to Chennai city. The banking scenario is not studied in the context of Human Capital until now in Chennai city. Chennai City, being one of the busiest business hubs in India, is a ground where almost all the Public and Private banks have laid seats. It is very important to study the management of banks in order to improvise for its development. There are numerous studies which have researched on Human Resource Management and development of banks but Human Capital has not been dealt so far.

Human Capital Management is a different approach to Human Resource Management. It is the next level in social sciences in this area. Human Capital Management is an approach to Human Resource Management that perceives employees as assets and not mere resources. Literature underlines the need for a new approach to Personnel Management
which is termed as Human Capital Management (HCM). It comes with the rule that, ‘if an employer hires a worker, he always hires a “whole man”’. (Marcel Van Maruijk and Joanna Timmers, 2003). Hence Human Capital Management is needed in every organization to develop and create Human Capital or in other words Human Strength. This study has concentrated on the major components or elements of Human Capital revealed in literature and their impact on Public and Private Sector Banks in Chennai City. The consolidated list of Human Capital items identified, are studied in the light of Human Capital Management. There is a gap in literature in assessing these elements and their outcome if implemented in Human Capital Management. This study seeks to find out or explore the impact of implementing these elements in managing Human Capital. This study will provide literature for each of these HC Items as elements in the management of Human Capital. Fundamentally, this research aims to bring out the importance and significance of Human Capital Management in Private and public sector banks in Chennai.

1.4 OBJECTIVES OF STUDY

1. To study the factors responsible for Human Capital Management in Banking Sector

2. To classify employee perception towards Human Capital Management in the study.

3. To measure the influence of personal and organizational variables on Human Capital Factors in banks.

4. To study the impact of Human Capital Management on Organizational effectiveness in Banking Sector.

5. To study the comparative analysis of Human Capital Management in Public and Private Sector Banks, and

1.5 METHODOLOGY OF STUDY

The study is based on the primary as well as the secondary data. The secondary data were collected from Books, Journals, periodicals, websites and bank manuals, files and records. The study depends mainly on the primary data collected through a well-framed and pre-tested structured questionnaire to elicit the well-considered opinions of the respondents. The Purposive Sampling technique was adopted to obtain the responses from the employees of both the Public and the Private Sector Banks. A consolidated list of Number of Employees working in each branch of PSBs and PRSBs was obtained. The study purposefully selected the banks and their branches that contained a large Number of Employees.

1.6 SCALING TECHNIQUE IN THE QUESTIONNAIRE

The responses of these sections are obtained from the employees in the 5-point scale, which ranges as follows:

5 - Strongly Agree; 4 – Agree; 3 – Neutral; 2 – Disagree; 1 - Strongly Disagree

1.7 QUESTIONNAIRE DESIGN

A questionnaire with 3 sections was developed and finalized to examine the personal profiles of bank employees, Human Capital Management (HCM) practices and its outcome. In the first section, the questionnaire contained five questions in the optional type and in the second section, twenty HCM practices were framed, namely Employee Benefits, Entrepreneurial Spirit, Job Rotation, Employee Participation in Training, Employee Training, Employee Skills and Competencies, Intellectual Skills, Human Capital statistics, Leadership Practices, Educational Qualification, Employee Turnover, Number of Employees, Employee Value, Employee Recruitment Policy, Employee Compensation, Employee Incentives Program, Employee Safety and Health, Career Development and Opportunity, Community Activities, establishing own Training Institute. All these questions were posted in the Likert’s five point scale statements. In the third part,
eight outcomes of HCM practices were considered, namely Employee Efficiency, Employee Commitment, Job Satisfaction, Technology Adoption, Profitability, Cost Reduction, Service Efficiency and Communication Capabilities. These questions were also responded by the bank employees posted in Likert’s five point scale.

1.8 STUDY AREA

The researcher has obtained the responses from 25 percent of the branch offices of Public and Private Sector Banks rationally. These branches have been selected in Chennai City comprising of 10 Zones. (www.chennaicorporation.com). The following 10 Public Sector Banks and 10 Private Sector Banks are considered as the sample domain.

Table 1.1

LIST OF BANKS USED IN THE STUDY

<table>
<thead>
<tr>
<th>S. NO</th>
<th>PUBLIC SECTOR BANKS</th>
<th>PRIVATE SECTOR BANKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Indian Bank</td>
<td>Tamil Nadu Mercantile Bank</td>
</tr>
<tr>
<td>2</td>
<td>Indian Overseas Bank</td>
<td>HDFC Bank</td>
</tr>
<tr>
<td>3</td>
<td>Bank of India</td>
<td>ICICI Bank</td>
</tr>
<tr>
<td>4</td>
<td>Punjab National Bank</td>
<td>IDBI Bank</td>
</tr>
<tr>
<td>5</td>
<td>State Bank of India</td>
<td>City Union Bank</td>
</tr>
<tr>
<td>6</td>
<td>Syndicate Bank</td>
<td>Lakshmi Vilas Bank</td>
</tr>
<tr>
<td>7</td>
<td>Andhra Bank</td>
<td>Catholic Syrian Bank</td>
</tr>
<tr>
<td>8</td>
<td>Canara Bank</td>
<td>Federal Bank</td>
</tr>
<tr>
<td>9</td>
<td>Union Bank of India</td>
<td>Karur Vishya Bank</td>
</tr>
<tr>
<td>10</td>
<td>Bank of Baroda</td>
<td>Axis Bank</td>
</tr>
</tbody>
</table>
1.9 HYPOTHESIS

H1 The employees in different managerial levels of Banks do not differ in their perception of Human Capital Management.

H2 There is no significant difference between the Public and the Private sector banks with reference to Human Capital Management.

H3 There is no significant influence of years of service on Human Capital Management perception.

H4 There is no significant impact of Human Capital factors on Organizational Effectiveness

1.10 PILOT STUDY

A pilot study was conducted by approaching all the existing Public Sector Banks (PSB) and Private Sector Banks (PRSB) in Chennai City. The study has been conducted with a sample of 50 questionnaires covering PSBs and PRSBs. The statements included in the questionnaire are subjected to the Test of Reliability using Cronbach’s Alpha Criterion. The value obtained is 0.968, which shows that the instrument is highly reliable. In the light of the experience gained, the questionnaire is modified suitably to elicit the response from the sample group.

1.11 DATA COLLECTION AND SAMPLING DESIGN

This research has taken 10 PSBs and 10 PRSBs located in Chennai City. The following table indicates the distribution of samples:
A total of 500 questionnaires have been distributed and out of which 197 from Public Sector Banks (PSB) and 223 from Private Sector Banks (PRSB) were received. The respondents were 25 Top level and 25 Middle level employees of the selected bank branches in Chennai City. After the scrutiny of these questionnaires, 4 questionnaires from PSBs and 5 questionnaires from PRSBs are rejected on account of incomplete responses. Finally, 193 and 218 completed questionnaires with a total of 411 from PSBs and PRSBs respectively have been used for the present study.

Based on the positions of the employees of PSBs and PRSBs, in terms of their designation, hierarchy, authority, and responsibility, the respondents tick marked Top level or Middle level option in the questionnaire. Therefore, the research is justified in equating the employee cadre of both Public and Private Sector Banks and the opinions elicited are in consonance with their positions in the respective organization.

As the elements influencing Human Capital Management practices are Common for all levels of employees in a bank, the same questionnaire was used to collect the responses from Top level employees and Middle level employees.

**1.11 TOOLS OF ANALYSIS**

The primary data collected from the employees of both PSBs and PRSBs were analyzed by using the following statistical tools to obtain a torrent of results concerning the objectives of the study:

<table>
<thead>
<tr>
<th>Banks</th>
<th>Distributed</th>
<th>Received</th>
<th>Rejected</th>
<th>Used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public sector banks</td>
<td>250</td>
<td>197</td>
<td>4</td>
<td>193</td>
</tr>
<tr>
<td>Private sector banks</td>
<td>250</td>
<td>223</td>
<td>5</td>
<td>218</td>
</tr>
<tr>
<td>Total</td>
<td>500</td>
<td>420</td>
<td>9</td>
<td>411</td>
</tr>
</tbody>
</table>
1. One sample t-test is applied to identify the nature of responses of employees about the HCM sub-systems/practices and significant differences among the various factors of HCM.

2. K-Means Cluster Analysis is exploited to classify the employees of PSBs and PRSBs based on the factors of HCM.

3. Linear Multiple Regression Analysis is brought to bear upon the problem of identifying the outcome HCM practices.

4. The application of one-way Analysis of Variance (ANOVA) is ascertained for establishing the significant relationship between independent and dependent HCM variables in the research.

5. Karl Pearson’s Co-efficient of Correlation is brought into the context to explore the parametric relationship among the various factors of HCM practices.

1.12 SCOPE OF THE STUDY

- Human Capital Management and the elements that contribute to Human Capital Management has been covered in this study

- The study covers Top level and Middle Level employees of Public and Private Sector Banks in Chennai City

- Human Capital Management is the function of Human Resource department, therefore the Study reaches out to the Human Resource department of Public and Private Sector Banks.
1.13 LIMITATIONS OF THE STUDY

The following are the limitations of the study:

1. The study is based on the perceptions of Top Level and Middle Level employees only. The clerical cadre is not considered because this cadre does not exist in some new generation Private Sector Banks.

2. The study is limited to only Public and Private sector banks

3. The study covers only branches located in Chennai City. Due to time constraint and the cost, the study is restricted only to Chennai City.

4. The study focuses majorly on Human Capital Management practices, which are common in both public and private sector banks. The researcher does not consider other minor HCM practices.

5. The researcher undertook the study during the period 2012-2014.

6. The responses given by the respondents are based on the set-up existing in their respective banks.

1.14 USEFULNESS OF THE STUDY

- The employees will be able to connect their personal goals such as career development and service to the community within the provisions of the Bank.

- Employers will retain employee potentials and enhance Human Capital in the Banks.
1.15 PLAN OF THE STUDY

- Chapter I - Introduction – This chapter elaborates the Banking Industry in India, Problem of the study, Objectives of the study, Methodology of study, Tools used for data collection, Area of study, Hypothesis of the study, Pilot study, Sample design and Statistical tools used for analysis, Limitations of the study, scope of the study and Plan of the study are explained in this chapter.

- Chapter II - Literature Review- This chapter gives literature evidence and support for this study on Human Capital and elements identified under Human Capital.

- Chapter III - Gives a brief account of the conceptual framework of Human Capital Management and its outcomes.

- Chapter IV - Analysis – This chapter consists of the analysis done for the data collected through questionnaire from Bank Employees.

- Chapter V - Findings and Suggestions - The results that were derived for Human Capital Management from the analysis are put forth in this chapter as Findings, Conclusion, Suggestions and Scope for future research are also highlighted in this chapter.