CHAPTER - I

INTRODUCTION

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Indian banking is in transition. The previous decade has been quite tumultuous for the business of banking in India. Unprecedented changes have occurred in terms of regulatory aspects, institutional arrangements, ownership pattern, procedural changes and the onset of competitive functioning. Banks are now faced with the challenges of increased risks caused by increased liberalisation, recognition of newer risks and risk based supervision, burden of working under international best practices, shift from traditional bustling branches to virtual banking where visit of a customer to the Bank is discouraged and even costs the customer, coping with customer disloyalty and meeting shareholder expectations. In addition, old woes of mounting NPAs, untrained manpower, lack of marketing orientation, low-value-high volume customer base accustomed to free service of the social banking era are continuing. The challenges are huge and the response has to be equally huge. Indian Banks are initiating steps to respond appropriately. However, the need is not to make small changes here and there but to completely reorient the ways the Indian banks are being managed hitherto. Major management challenges are identified as managing human resources, choosing the right business model, facing up competition and adoption of change as a culture.

1.1 BANKING IN INDIA

1.1.1 Origin and Evolution of Indian Banking

Opinions differ as to the origin of the work "Banking". The word "Bank" is said to be of Germanic origin, cognate with the French word would have drawn its meaning from the practice of the Jewish money-changers of Lombardy, a district in North Italy, who in the middle ages used to do their business sitting on a bench in the market place. Again, the etymological origin
of the word gains further relevance from the derivation of the word “Bankrupt” from the French word “Banqueroute” and the Italian word “Banca- rotta” meaning “Broken bench” due probably to the then prevalent practice of breaking the bench of the money-changer, when he failed.

Banking is as old as the authenticity history and origins of modern Commercial Bank are traceable to ancient times. The New Testament mentions about the activities of the moneychangers in the temples of Jerusalem. In ancient Greece, around 2000 B.C. the famous temples of Ephesus, Delphi and Olympia were used as depositories for peoples surplus funds and these temple were the centers of money-lending transactions. The priests of these great temples acted as the financial agents until public confidence was destroyed by the spread of disbelief in the religion. Traces of credit by compensation and by transfer orders are found in Assyria, Phoenicia and Egypt before the system attained full development in Greece and in India. The ancient Hindu scriptures refer to the money-lending activities in the Vedic period. In India during the Ramayana and Mahabharata eras, banking has become a full fledged business activity and during the manusmriti period which followed the Vedic period and Epic age the business of banking was carried on by the members of the Vaish community, Manu, the great law-giver of the time, speaks of the earning of interest as the business of Vaishyas. The banker in the Smriti period performed most of those functions which banks perform in modern times, such as the accepting of deposits, granting secured and unsecured loans, acting as their customers bailee, granting loans to kings in times of grave crises, acting as the treasurer and banker to the state and issuing and managing the currency of the country.

Banking is different from money lending but two terms have in practice been taken to convey the same meaning. Banking has two important functions to perform one of accepting deposits and other of lending money and/or investment of funds. It follows from the above that the rates of interest allowed on deposits and charged on advances must be known and reasonable. The moneylender advances money out of his own private wealth,
hardly accepts deposits and usually charges high rates of interest. More often, the rates of interest relate to the needs of the borrower. Money-lending was practiced in all countries including India, much earlier than the present type of Banking came on scene.¹

1.1.2 History of Banking

Banking existed in India as we have seen earlier in one form or the other form times immemorial. We have got evidence to suggest a few centuries before Christ, India had a system of Banking which admirably suited their needs. There were bankers in all important trade centers. They performed the susal functions of lending money to traders and craftsmen and sometimes placed funds at the disposal of kings for financing wars. Most of the loans were on an unsecured basis but pledge of movable and mortgages of immovable were not unknown. From the laws of Manu the great Hindu jurist, it appears that deposit banking in some form was known in India in ancient times. Rules and rates relating to deposits and advances were laid down. Hundis and indigenous bills of exchange came into use about the 12th Century A.D. The indigenous bankers not only lent money but also financed inland and foreign trade. During the Mugul period, metallic money (through known as far back as the Hindu Era) was issued and the indigenous bankers added one more line of money changing to their already profitable business. They stated exchanging money circulating in one part of the country with the money current in another part of the country, making a good margin for them. The indigenous bankers could not, however, develop to any considerable extent the system of obtaining deposits from the public, which today is an important function of a banker.

Banks, as we recognize them as important financial intermediaries in the Indian financial system, could be as an outstanding contribution of the British rulers, blossoming as the culmination of their trading interest. The British came to India for purposes of trade, but in the courses of a century and a half the flag, as goes the saying, followed trade and they became the rulers
of the country. It was only in their interests that the banks were established, the first bank being. The Bank of Hindustan in 1770, as an appendage of one of the British agency, M/s Alexander & Co. The present era in Banking may be taken to have commenced with the establishment of Bank of Bengal in 1809 under the Government Charter and with Government participation in the share capital. Bank of Bombay and Bank of Madras commenced their operations in 1840 and 1843 respectively, on similar lines. These three banks were known as the Presidency Banks. They were also given powers to issue notes and thus could be regarded as quasi-Central Banks, too. Since their notes did not become popular these powers were withdrawn in 1862. In fact, after this period there was virtually a mushroom growth of Banks from the year 1860, Joint stock banks with limited liability made their appearance on the Banking scene. Allahabad Bank Ltd., was established under European management in 1865; The Punjab National Bank Ltd., was founded in 1895; The bank of India Ltd., in 1907; Bank of Baroda Ltd. In 1908; Central Bank of India Ltd., in 1911. Many other banks were founded later. The prominent among them were Union Bank of India Ltd. In 1919; Andhara Bank Ltd., in 1923; Syndicate Bank Ltd. In 1925 Bank of Maharashtra Ltd., in 1935; Indian Overseas Bank Ltd., in 1936; Dena Bank Ltd., in 1938; United Commercial Bank Ltd., in 1943; and United Bank of India Ltd., in 1950. All these banks have branches in many important centers of the country. Some of them do have offices in foreign countries as well. These Commercial banks undertake all types of banking business including deposits, advances, collection and purchase of bills, remittances and foreign exchange.

As years rolled by, the working of many of the Banks became unsatisfactory owing to their locking up their funds in huge industrial enterprises and financing speculative deals and some banks were managed by persons who did not follow the principles of Sound Banking. The series of bank crises, particularly during the periods 1913 to 1937 and 1931 to 1938, wiped out many a weak bank.
In 1967, the Government introduced the concept of 'Social Control' in the field of Banking industry. The scheme of Social Control was aimed at bringing some laudable changes in the management and credit policy of the commercial banks. The close link between big business houses and big banks was intended to be snapped or at least made ineffective by the reconstitution of Board of Directors with the effect that at least 51% of the directors were to have special knowledge or practical experience in Accountancy, Agriculture and Rural Economy, banking, Cooperation, Economic, Finance, law, Small Scale Industries and any other matters as may be useful to the Banking company. Appointment of whole time Chairman with special knowledge and practical experience of working of Commercial banks or financial or economic or Business Administration was intended to professionalise the top management. Imposition of restrictions on loans to be granted to the directors concerns was another step towards avoiding undesirable flow of credit, to the units in which the directors were interest. The scheme also provided for the takeover of banks under certain circumstances.

The social control measures outlined above were not considered adequate to achieve the desired social and economic objectives.

The Government of India therefore, with effect from 19th July 1969 (by the ordinance issued on that date) nationalised 14 major Indian Banks, each with an aggregate deposit of Rs. 50 crores or more with a view to the “to serve better the needs of development of the economy, in conformity with National Priorities and Objectives.”

The ordinance through which the Banks were nationalised was struck down by Supreme Court as unconstitutional and invalid, on grounds of “hostile discrimination” and “illusory compensation”. So the government addressed these lacunae and Banking Companies (Acquisition and Transfer of Undertaking) Act, 1970 was introduced.

Eleven years after nationalization of 14 commercial banks the Govt. on April 15, 1980 took over six schedule Commercial banks, each with demand
6

and time liabilities exceeding Rs. 200 crores through an ordinance issued by the President.²

1.1.3 Structure of Banking in India

The Indian banking system consists of a number of institutions; comprising Reserve Bank of India, Indian Commercial Banks, Co-operative Banks, Regional Rural Banks, Foreign Banks and other specialised banking institutions.³ The structure of banking in India is given in Chart No.I

1.1.4 The Structure of Co-operative Banks in India

The existing structure of Co-operative Credit in India is a three-tier, federal one. At the State-level, there is a State Co-operative Banks; at the District level, there are District Co-operative banks which are called Central Co-operative Banks; and at the village-level, there are Primary Agricultural Co-operative Credit Societies. In towns and cities, there are Urban Co-operative Banks and other Non-Agricultural Co-operative Societies.⁴

Diagrammatically, the Co-operative Credit structure is shown in the Chart No.II

1.1.5 Kinds of Banks

Financial requirements in a modern economy are of a diverse nature, distinctive variety and large magnitude. Hence, different types of banks have been instituted to cater to the varying needs of the community.⁵

A) Commercial Banks

In India, however, there is a mixed banking system. Prior to July 1969, all the commercial banks - 73 scheduled and 26 non-scheduled banks, except the state Bank of India and its subsidiaries were under the control of private sector. On July 19, 1969, however, 14 major commercial banks with deposits of over 50 crores were nationalized. In April 1980, another six commercial banks of high standing were taken over by the government.
CHART - II

CO-OPERATIVE CREDIT STRUCTURE IN INDIA

Agricultural Credit

- Short-term & medium term
  - State of Co-operative banks
  - Central Co-operative Banks
  - Employees co-operatives credit societies

Non-Agricultural Credit

- Long-Term
  - Central Land Development Banks
  - Primary & Land Development Banks
  - Consumer co-operatives credit societies

- State Co-operative banks
  - Central Co-operative Banks
  - Primary Non-Agricultural Credit
  - Urban co-operatives Credit societies

- State Industrial Co-operative bank: Central Industrial Co-operative Bank

It includes URBAN CO-OPERATIVE BANKS
B) Co-operative banks

Co-operative banks are a group of financial institutions organised under the provisions of the Co-operative Societies Act of the states. The co-operative credit societies organised by members to meet their short-term and medium-term financial requirements.

The main object of co-operative banks is to provide cheap credit to their members. They are based on the principles of self-reliance and mutual co-operation. The co-operative banking system in India is, however, small sized in comparison to the commercial banking system. Its credit outstanding is just less than one-fifth of the total credit outstanding of the commercial banks. Nonetheless, co-operative credit system is the main institutional source of rural & urban, especially, agricultural & non-agricultural finance in India.

Co-operative banking system in India has the shape of a pyramid, i.e., a three-tier structure, constituted by

1. Primary credit societies;
2. Central co-operative banks; and
3. State co-operative banks.

Primary credit societies are at the local or base level. In rural areas their are primary agricultural credit societies (PACs), which cater to the short and medium-term credit needs of the farmers. In Urban areas, to provide non-agricultural credit, urban co-operative banks and employees' credit societies are formed. Urban banks usually provide short-term loans to their members, who are small borrowers. They also accept deposits from members and non-members, too. Thus, their functions and working are more or less similar to those of commercial banks. But by nature, their form is only co-operative and that is a major distinction between these and commercial banks, which are joint-stock companies.

The Central Co-operative Banks (CCBs) are federations of primary societies belonging to a specific district. By furnishing credit to the primary
societies, central co-operative banks serve as an important link between these societies and the money market of the country. No central co-operative bank lends to individuals. It lends so societies only. The State Co-operative Banks (SCBs) lie at the apex of the entire co-operative credit structure. Every State Co-operative Bank’s basic function is to furnish loans to the central co-operative banks in order to enable them to help promote the lending activities of the primary credit societies. The State Co-operative Banks thus serve as the final link between the money market and co-operative sector of the country.

C) Specialized Banks

There are specialised forms of banks catering to some special needs with this unique nature of activities. There are, thus, foreign exchange banks, industrial banks, development banks, land development banks etc.

D) Foreign Exchange Banks

Foreign Exchange Banks or simply exchange banks are meant primarily to finance the foreign trade of a country. They deal in foreign exchange business, buying and selling of foreign currencies, discounting, accepting and collecting foreign bills of exchange. They also do ordinary banking business such as acceptance of deposits and advancing of loans, but in a limited way. In India, there are 15 foreign commercial banks basically undertaking such activities only.

E) Industrial Banks

Are primarily meant to cater to the financial needs of industrial undertakings. They provide long-term credit to industries for the purchase of machinery, equipment’s etc.

In India, there are some special financial institutions, which are called “development banks”. Presently, at the all-India level, there are five such industrial development banks:
1. The Industrial Development Bank of India (IDBI),
2. The Industrial Finance Corporation of India (IFCI),
3. The Industrial Reconstruction Corporation of India (IRCI),
4. The Industrial Credit and Investment Corporation of India (ICICI),
5. The National Small Industries Corporation (NSIC).

The Government, except the ICICI, which is owned by the private sector, has founded all these institutions.

Similarly, at the state level, there are;
1. The State Financial Corporations (SFCs),
2. The State Industrial Development Corporations (SIDCs)
3. The State Industrial Investment Corporations (SIIICs).

F) Land Development Banks (LDBs)

Are meant to cater to the long and medium-term credit needs of agriculture in our country. They are mainly district-level banks. Since the LDBs give loans to their members on the mortgage of land, previously they were called land mortgage banks. There are state land development banks at the top level and primary land development banks at the base or local level.

G) Agricultural Refinance and Development Corporation (ARDC)

ARDC is a king of agricultural development bank, which provides medium and long-term finance to agriculture in our country. ARDC operates by making provisions of refinance to State Land Development Banks, State Co-operative Banks and Scheduled Commercial Banks which are its shareholders.

The Indian Banking is in the process of reforms, Reserve Bank of India and the Government from time to time had made some acts, constituted committees for better working of banking services, table 1.1 gives brief developments of reforms in Indian banking.
TABLE 1.1
PHASES OF BANKING REFORMS IN INDIA

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949</td>
<td>Enactment of banking regulation Act.</td>
</tr>
<tr>
<td>1955</td>
<td>Nationalization of state Bank of India</td>
</tr>
<tr>
<td>1961</td>
<td>Insurance cover to deposits.</td>
</tr>
<tr>
<td>1969</td>
<td>Nationalization of 14 major banks</td>
</tr>
<tr>
<td>1971</td>
<td>Credit Guarantee corporation</td>
</tr>
<tr>
<td>1975</td>
<td>Regional Rural Banks</td>
</tr>
<tr>
<td>1980</td>
<td>Further Nationalization of 6 major banks</td>
</tr>
<tr>
<td>1991</td>
<td>Narsimham committee Report –1</td>
</tr>
<tr>
<td>1998</td>
<td>Narsimham Committee Report –2</td>
</tr>
<tr>
<td>1996</td>
<td>Basle committee</td>
</tr>
<tr>
<td>2000</td>
<td>Reduction of Govt. shareholding from 51 percent to 33 percent.</td>
</tr>
</tbody>
</table>


1.2 Co-operative Banking

Co-operative Banks came into existence with the enactment of the Cooperative Credit Societies Act of 1904, which provided for the formation of cooperative credit societies. Subsequently, in 1912, a new Act was passed which provided for the establishment of cooperative central banks. Cooperative credit institutions play a pivotal role in the financial system of the economy in terms of their reach, volume of operations, and the purpose they serve.

Cooperative banks fill in the gaps of banking needs of small and medium income groups not adequately met through by the public and private sector banks. The cooperative banking system supplements the efforts of the commercial banks in mobilizing savings and meeting the credit needs of the local population.
Cooperative bank is member promoted and has to be registered with the state based Registrar of Cooperative Societies. It functions with the rule of one member one vote and on no-profit, no loss basis.

The cooperative credit sector in India comprises rural co-operative credit institutions and urban co-operative banks. The rural Cooperative credit institutions comprise of institutions such as state co-operative banks, district central co-operative banks, and primary agricultural credit societies, which specialize in short term credit, and institutions such as state cooperative agriculture and rural development banks and primary cooperative agriculture and rural development banks, which specialize in long-term credit.

Urban Cooperative Banks (UCBs) are mostly engaged in retail banking. They are not permitted to deal in foreign exchange directly because of high risks involved in forex business. Only three UCBs, namely, the Saraswat Cooperative Bank Limited, the Bombay Mercantile Cooperative Bank Limited and the Maharashtra State Cooperative Bank Limited, have been authorized by the Reserve Bank to deal in foreign exchange. Their exposure to non-fund business like issuance of Bank Guarantees and Letters of Credit is also limited. Their exposure to corporate (wholesale) banking is also limited due to factors such as small size of their balance sheet and inadequate expertise.6

1.3 Co-operative Values and Principles

1.3.1 Definition

A Co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned democratically controlled enterprise.7

1.3.2 Values

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their functions.
Co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

1.3.3 Principles of Co-operative

The co-operative principles are guidelines by which co-operative put their values into practice.

A) Voluntary Open Membership.

Co-operatives are voluntary organisations open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

B) Democratic Member Control

Co-operative are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote), and co-operatives at other levels are also organized in a democratic manner.

C) Member Economic Participation

Members contribute equally to and democratically control the capital of their co-operative. At least part of that is usually the common property of the co-operative; members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative possibly by setting up reserves, part of which at least would be indivisible: benefiting members in proportion to their transactions with the co-operative: and supporting other activities approved by the membership.

D) Autonomy and Independence

Co-operatives are autonomous, self-help organisations controlled by their members. If any enter into agreements with other organisations, including
governments, or raise from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

E) Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public—particularly young people and opinion leaders—about the nature and benefits of co-operation.

F) Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement working together through local, national, regional, and international structures.

G) Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

1.4 Urban Co-operative Banks

Initially, most of the urban banks in India were organized as credit societies and later converted into urban banks. Up to about 1939, the term ‘bank’ was loosely used by many societies and there was hardly any distinction between an urban co-operative bank and urban credit society. While some urban credit societies undertook banking functions without using the word ‘bank’ or ‘banker’, there were instances where many urban credit societies not engaged in any banking functions also used the word ‘banker’.

The Mehta-Bhansali Committee (1939) in Bombay made an attempt to define an Urban Co-operative Banks. According to this Committee, “all urban credit societies having paid-up share capital of Rs. 20,000 and over and
accepting deposits of money on current account or otherwise subject to withdrawal by cheque, draft or order came within the category of urban co-operative banks.\(^8\)

According to the Co-operative Planning Committee (1949), urban banks receiving deposits on current account were required to have (a) a paid-up share capital of at least Rs.2,00,000; (b) maintain fluid resources on the scale prescribed by the Registrar of Co-operative Societies; and (c) carry to the reserve fund at least one-third of their net profits till it equals the paid up share capital and thereafter at least one-fourth of the net profit. The reserve fund should be invested in gilt-edge securities or deposited in banks approved by the registrar and should not be used for the business of the bank.\(^9\)

Following the extension of certain provisions of the Reserve Bank of India Act 1934 and the Banking Regulation Act 1949 to co-operative banks from 1\(^{st}\) March 1966, an urban bank came to be called a primary co-operative bank and defined as a co-operative society, other than a primary agricultural credit society. "(i) the primary object of which is the transaction of banking business; (ii) the paid-up capital share capital and reserves of which are not less than Rs.1 lakh; (iii) the by-laws of which do not permit admission of any other co-operative society as a member.\(^{10}\)

In Maharashtra State, only those urban credit societies can be called as 'banks' which conduct banking business in accordance with Sec.277 F of the Indian Companies Act, 1913 or Sec.5 (b) of the Banking Regulation Act, 1949 and should have a paid-up share capital exceeding Rs. 20,000.\(^{11}\)

1.5 Urban Co-operative Banking - Development of 100 Years.

The banking in our country is not new. The reference regarding banking was found in 'Manusmruti' we might call the bankers as moneylenders. The moneylenders were catering to the needs of the people. This business was run by individuals, Hindu undivided families or in
partnership. The institutional banking was established in the first decade of nineteenth century.\textsuperscript{12}

The co-operative endeavor is not new to our Indian society. Shri Koutilya, in his arthashastra described ‘Guilds of workmen as well as those who carry on any co-operative work shall divide their earnings either equally or as agreed amongst them. The last two decades of the nineteenth century India had to face the economic crisis. The calamities like ‘Cholera’ and ‘small pox’ also hammered the economy. The resulting indebtedness was at alarming position. This needed establishment of voluntary organisation linked with co-operative method, which had the Indian philosophy as the base and European experience for guidance. The agricultural credit co-op. societies have been organized with an aim of releasing the farmers from the clutches of rural moneylenders and provide cheap capital\textsuperscript{13}

Mr. Herman Schultze in Germany made the beginning of Urban Co-operative banks in 1849, by starting a ‘friendly Society’. It was meant for supplying credit to artisans, workers and such other needy people in urban areas and by Mr. Luigi Luzzatti in Italy during the period 1855-1885.\textsuperscript{14}

The origin of urban co-op. credit movement in India can be traced to the last decade of nineteenth century. Some of the middle class people of the princely State of Baroda decided to organize a mutual aid credit society on 5\textsuperscript{th} Feb., 1889. Shri Vithal Laxman Kavathekwar with the object of promoting thrift and providing relief from the clutches of moneylenders who were charging abnormal interest set up the Anyonya Sahayakari Mandal. This Mandal presently functioning as ‘Anyonya Sahakari Mandal Co-operative Bank Ltd., and treated as one of the top urban co-operative bank in India.

The Co-operative movement in India is initiated by the Madras Presidency Govt. The enactment of Co-op. Credit Societies Act, 1904 gave the real impetus to the movement. Co-op. Credit Societies Act, 1904 was passed as per the recommendations of Sir Edward Law Committee, which was appointed on the basis of the study report of Sir Nicholson. Shri F. H
Nicholson studied the theory and practice of agriculture and banks in Europe in 1882. Shri Nicholson suggested to the Govt. setting up the co-operative credit society similar to those found in Germany. The first Co-op. Credit Society was registered in Canjeevaram town in Madras Province in Oct. 1904. Subsequently, the Betegiri Co-operative Credit Society in Dharwar District in the undivided Bombay Province and the Bangalore City Co-operative Credit Society in the erstwhile Mysore State were registered in October 1905 and December 1905 respectively. Several urban co-operative societies were established. The Bombay Urban Co-operative Society was established as primary credit society but doing the functions of central society. The majority Urban Co-operative Banks in India were established in Bombay and Madras Presidencies. These two provinces accepted the co-operative credit society as a tool to solve the problems on financial and banking needs of urban populations with the guiding principles of voluntary, open membership, equal economic participation and concern for community.

The Co-operative Credit Societies Act, 1904 was amended in 1912. Some major amendments were made to the act with a view for broad basing. The Co-operative Credit Societies Act 1912 permitted registration of non-credit society also.

The co-operative credit movement was taken off with the recommendations of the Maclagan Committee. The 'Co-operation' was the subject of central Government. The subject was listed in State Govt. on the recommendations of the Maclagan Committee 1915. The Bombay Province Govt. passed first State Co-operative Societies Act in 1925. This Act has given the size and shape to the co-operative movement as well as stressed the concept of thrift, self-help and mutual aid.

The concept of Urban Co-operative Credit Societies was not well defined. The first time attempt was made to define by the Mehta Bhansali Committee in 1939 in Bombay province. The committee defined the Urban Co-operative Banks whose share capital was Rs. 20,000/- or more and which
were accepting the deposit of money in current account and withdrawal by cheques. In Madras province Registrar of co-operation prescribed certain amount of liquid resources.

Reserve Bank of India, while reviewing the progress made by the co-operative movement in India in the year 1939-40, observed that, "Urban Credit Societies and banks are the most important feature of the Urban Co-operative Movement in India, and make up, to some extent, for the absence of joint stock banking facilities in the smaller towns". In 1957-58, The Reserve Bank of India had surveyed the progress of these banks and had made valuable suggestions for furthering their progress.

The demand for extension of deposit insurance was gaining momentum on account of significant increase in operation of UCBs and their volume of deposits it required control by Reserve Bank of India on co-operating banking. The most significant development relating to urban co-operative banks was the extension to co-operative banks of certain provisions of the Banking Regulation Act, 1949 from 1st March 1966. Following the extension of certain provisions of the Reserve Bank of India Act 1934 and the Banking Regulation Act 1949 to co-operative banks from March 1966, an urban bank came to be called a Primary Co-operative Bank and defined as a co-operative society. This was a landmark in the evolution of urban banking in India and therefore the urban banks came under duality control. The banking related activities are governed by Reserve Bank of India directive and regulations, registration, audit, management, liquidation etc. are governed by the State Co-operative Act.

Initially, these banks were, primarily organized to provide credit to the urban middle class persons. But with the lapse of time, their scope had to be broadened and, at present, these banks are performing almost all the functions performed by the commercial banks. Formerly, these banks were advancing credit mainly for consumption purposes. But now, they have started advancing credit for all purposes. According to the suggestions made
by the Varde Committee (1963) and Damari Committee (1967), these banks have started providing credit to small-scale industries and to the downtrodden and economically backward communities in India. Actually, they have, now, diversified their activities.

The Reserve Bank of India had appointed a committee under the chairmanship of then executive Director Shri. Madhavdas for giving proper direction to the development of Urban Co-operative Banks in 1976. The Madhavdas Committee suggested near about 220 recommendations to strengthen the operations and development of urban co-operative banks.

The period between 1966-1993 i.e. from the application of Banking Regulation Act to urban co-operative banks may be called as an over regulated regime. The Reserve Bank has issued its first directive on interest on deposits on 16th August 1974. Thereafter, RBI has issued many directives on various subjects. e.g. Interest rates on deposits, Interest rates on advances, Maximum limit on advances, selective credit control, Priority sector advances, premises on lease etc. The licensing policy was too restrictive. Urban Co-operative Banks were not allowed to expand beyond municipal limits. The UCBs were permitted to operate only in semi-urban, urban and metropolitan cities and not in rural areas. The UCBs have also restriction for financing the agricultural operation. There were also restriction on deployment of UCBs surplus resources outside the co-operative field. Since the appointment of the Madhavdas Committee, the RBI has issued licenses to existing banks and new urban co-operative banks at very selective basis and only on merit.

In January 1983, a Standing Advisory Committee for Urban Co-operative banks was constituted by the Reserve Bank of India to advise the Reserve bank on various aspects pertaining to the urban banks such as organisational matters, introduction of professional management, training and education of personnel of the urban banks. The focus of the Standing Advisory Committee in the first decade of its existence appeared mainly to
streamline the functioning of urban co-operative banks. Its major concerns during the decade apparently were licensing of urban co-operative banks, rehabilitation of weak banks and extending help to strengthen the sector as a whole. For this purpose state-wise survey of urban co-operative banks was taken up regularly for some years.

In a major policy initiative taken in December 1983, the concept of Mahila Banks and banks for weaker sections of society was introduced.

In 1986, RBI for the first time advised Registrars of Co-operative Societies that the audit of urban co-operative banks with working capital of Rs.2 crores and above should be entrusted to Chartered Accountant.

In September 1991, the governor of Reserve Bank of India constituted a committee headed by Shri. S.S. Marathe, to review the policy relating to the licensing of the new primary (urban) co-operative banks and other related aspects. The Marathe Committee Report was a landmark development in the history of urban co-operative banks. Almost simultaneously the Narsimham Committee on 'Financial Sector Reforms' also submitted its report recommending reforms with far reaching implications for the banking sector in general. Some of these, which were also significant for the urban co-operative banking sector, are Deregulation of Interest Rates, Prudential Norms, Extension of Area of Operations, Branch Licensing Policy, etc. After July 1996 when the XIV meeting of SAC was held, a number of policy measures were initiated by RBI, primarily aiming at granting greater operational freedom to UCBs are Interest on Deposits, Branch Licensing, Relaxation in the membership of Mahila UCBs, Implementation of Recommendations of the Committee to Review Audit Systems in UCBs, Changes in Multi State Co-operative Societies Rules, etc.

Data prior to 1948 about the urban co-operative banking sector is unfortunately not available. The following table no. 1.2 showing how the Urban Co-op. Banks were established in India after independence.
TABLE 1.2
NUMBER OF URBAN CO-OPERATIVE BANKS IN INDIA
FROM 1948-2003*

<table>
<thead>
<tr>
<th>No.</th>
<th>Year</th>
<th>No. of Urban Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1948-49</td>
<td>815</td>
</tr>
<tr>
<td>2.</td>
<td>1959-60</td>
<td>1242</td>
</tr>
<tr>
<td>3.</td>
<td>1969-70</td>
<td>1129</td>
</tr>
<tr>
<td>4.</td>
<td>1979-80</td>
<td>1087</td>
</tr>
<tr>
<td>5.</td>
<td>1989-90</td>
<td>1390</td>
</tr>
<tr>
<td>6.</td>
<td>1999-00</td>
<td>2050</td>
</tr>
<tr>
<td>7.</td>
<td>2002-03</td>
<td>2104</td>
</tr>
</tbody>
</table>

Note :-* As on 31st March, 2003


It is seen from the table1.2 that the number of urban co-operative banks decreased during 1959-60 to 1979-80. During the period 599 salary earners co-operative banks went outside the purview of the Banking Regulation Act. As the Reserve Bank of India did not find any rationale for their continuing as banking entities and therefore those banks have advised to go out of the purview of Banking Regulation Act. During the said period, the Reserve of Bank India has not issued new licenses but the number of banks increased by automatic conversion of primary credit society in to Urban Co-operative Banks.

Having proved their worth through their performance, Urban Co-operative Banks have came a long way since they were brought under the purview of Banking Regulation Act, and are fully justified in their present demand for complete autonomy from restrictions of all kinds. The goal may be distant and the road through, they are sure to achieve it, for, the source from which these 'small man's' banks derive their strength is by no means 'small'.
1.6 Personnel Management

The birth of modern civilization led to the formation of groups due to the realization on the part of the participating members that they can satisfy fully and effectively their multiple and dynamic biological, social and psychological needs not by striving and operating in isolation but by forming groups so as to co-operate and collaborate with each other. The formation of groups necessitated their careful management with a view to achieving effectively the pre-determined group goals in a synthesized and congruent manner. During the centuries that followed, continuous refinement took place in the concepts, tools, techniques, practices, strategies and styles of management. Now management occupies a pivotal role in every type of human endeavor.

With the passage of time, enhancement in the stock of knowledge and increasing sophistication in the field of technology, human beings have been able to develop a far better and a far more realistic and dynamic management occupies an extremely important place in the sum totality of management system of any enterprise. A large number of experts, scholars, researchers and practicing managers have contributed to the growth and development of knowledge relating to personnel management. But human personality is so complex as well as dynamic that nothing can be said about finally. This requires constant research formulation and testing hypothesis with a view to identifying the much familiar independent variable, dependent variable causal relationship.

Personnel Management is also known as Human Resources Management and Public Administration.

Definitions of personnel management given by number of authors, some of them are: -

Edwin B. Flippo, "Personnel or Human Resource Management involves the planning, organizing, directing and controlling of the procurement,
development, compensation, integration and maintenance of people for the purpose of contributing to organisational, individual and social goals."\textsuperscript{17}

Dale Yoder, "Personnel Management is that part of business management which is concerned with people at work and with their relationships within an enterprise. Its aim is to bring together and develop into an effective organisation the men and women who make up an enterprise and, having regard to well-being of the individual and of working groups, to enable them to make their best contribution to its success."\textsuperscript{18}

Paul Pigors and Charls A. Myers, "Human Resource Management as a method of developing the potentialities of employees so that they get maximum satisfaction out of their work and give best efforts to the business organisation."\textsuperscript{19}

Lawrence Appley, former President of the American Management Association, has perhaps given the best possible definition of Personnel Management. According to him, "It is a function of guiding human resources into a dynamic organisation that attains its objectives with a high degree of morale and to the satisfaction of those concerned. It is concerned with getting results through people."\textsuperscript{20}

According to Indian Institute of Personnel Management, "Personnel Management is that part of the management function which is primarily concerned with the human relationships within an organisation. Its objectives in the maintenance of those relationships on a basis which, by considerations of the well-being of the individual enables all those engaged in the undertaking to make their maximum personnel contribution to the effective working of that undertaking."\textsuperscript{21}
1.6.1 Functions of Personnel Management

The functions of personnel management can be broadly classified into two categories, viz., \(^\text{22}\)

i) Managerial functions.

ii) Operative Functions.

1.6.1.1 Managerial Functions

a) Planning: Ability to think, analyse and reach decision pertaining to personnel.

b) Organising: creating a structure for authority and responsibility to suggest boundaries within which of function.

c) Directing: Direction involves the issuing orders and motivating personnel to execute orders.
g) Motivation: Personnel department can assist line managers to evolve financial and non-financial rewards to motive employees of their department.

1.6.2 Objectives of Personnel Management

The main objectives of personnel management in modern organisation are:\(^{23}\)

1. **Optimum Productivity**: Effective optimum utilization of human resources within the enterprise without their exploitation to attain economically and effectively the goals of the business firm.

2. **Group Satisfaction**: Establishing mutually satisfying work relationships between all the workers of the business enterprises at different work levels, i.e., promotion of group satisfaction and building up of team spirit to establish desirable work relationship between employers and employees, etc. It ensures satisfaction to the workers so that they are ready to work freely. It also advances the general welfare of the community.

3. **Individual Development**: The objective of personnel management is to attain maximum individual development to the workers' fullest potential. Personnel Management is people-centered. It provides adequate opportunities to the highest level of perfection with due dignity and well being.

4. The objectives of personnel management are to achieve maximum individual development, desirable work atmosphere and interpersonal relations and effective moulding of human resources as contrasted with physical resources.
1.6.3 Principles of Personnel Management

The following are some of the important principles of personnel management:

a) Care and Skill should be exercised in the selection of employees.

b) Introduction to the job should be friendly, skillful, and adequate.

c) Each employee should be made to feel that his efforts are really appreciated.

d) Careful and thoughtful consideration should be given to the probable effect of each rule, notice and practice on employees.

e) Employees should take part in planning those things which affect their working conditions.

f) There should be a constant and intelligent effort on the part of management to be absolutely fair in every policy and practice.

g) There should be a sense of security and reasonable freedom from worry.

h) Each employee should have a feeling of pride in the worth fullness of his work.

i) The organisational set up should be such that there is no confusion in anybody's mind s to his duties or responsibilities.

j) Conditions should be such that working in the office should prove to be a satisfactory social experience as a means of making livelihood.

1.6.4 Personnel Policies & Principles

1.6.4.1 Policy

A policy is a plan of action. It is a statement of intention committing the management to a general course of action when the management drafts a
policy statement to cover some features of its personnel programs, the statement may often contain an expression of philosophy and principles as well. Although it is perfectly legitimate for an organisation to include its philosophy, principles and policy in one policy expression. A policy is a predetermined, selected course established as a guide toward accepted goals and objectives.\textsuperscript{25}

A policy does not spell out the detailed procedure by which it has to be implemented. That is the role of a procedure. A procedure is in reality a method for carrying out a policy. A policy should be stated in terms broad enough for it to be applicable in varying situations. Lower-level managers who apply a policy must be allowed some discretion in carrying out the policy. The circumstances between two departments or sections vary. Hence a rigid, excessively detailed policy statement might cause injustice, if not granted some latitude.\textsuperscript{26}

1.6.4.2 Personnel policies

To enable the personnel department to carry out its functions efficiently, it is necessary to formulate personnel policies in advance.

In the words of Edwin B. Flippo "a policy is man made rule of predetermined course of action that established to guide the performance of work towards the organisation. It is a type of standing plan that serves to guide subordinates in the execution of their tasks."\textsuperscript{27}

According to Calhoon, "Personnel policies constitute guides to action. They furnish the general standards or bases on which decisions are reached. Their genesis lies in an organisation's values, philosophy, concepts and principles." Policies are statements of the organisation's overall purposes and its objectives in the various areas with which its operations are concerned – personnel, finance, production, marketing and so on."

He adds: "personnel or labour or industrial relations policy provides guidelines for a wide variety of employment relationships in the organisation."
These guidelines identify the organisation's intentions in recruitment, selection, promotion, development, compensation, organisation, motivation and otherwise leading and directing people in the working organisation. Personnel policies serve as a road map for managers.²⁸

The personnel policies are:²⁹

1. Policy of hiring people with due respect to factors like reservation, sex, marital status, and the like.

2. Policy on terms and conditions of employment—compensation policy and methods, hours of work, overtime, promotion, transfer, lay-off, and the like.

3. Policy with regard to medical assistance—sickness benefits, ESI and company medical benefits.

4. Policy regarding housing, transport, uniform, and allowances.

5. Policy regarding training and development—need for, methods of, and frequency of training and development.

6. Policy regarding industrial relations—trade-union recognition, collective bargaining, grievance procedure, participative management, and communication with workers.

1.6.6 Aims and objectives of personnel policies

To enable an organisation to fulfill or carry out the main objectives which have been laid down as the desirable minimum of general employment policy.

I. To ensure that its employees are informed of these items of policy and to secure their cooperation for their attainment.

II. To provide such conditions of employment and procedures as will enable all the employees to develop a sincere sense of unity.
with the enterprise and to carry out their duties in the most willing and effective manner.

III. To provide an adequate, competent and trained personnel for all levels and types of management, and motivate them.

IV. To protect the common interests of all the parties and recognize the role of trade unions in the organisations.

V. To provide an opportunity for growth within the organisation to persons who are willing to learn ad undergo training to improve their future prospects.

1.6.7 Principles of Personnel Policies

If policy is a guide for managerial decisions and actions, principle is the fundamental truth established by research, investigation and analysis. Many personnel principles have been established through practice, experience and observation. Principles are universal truths generally applicable to all organisations. Policies, on the other hand, vary from organisation to organisation. Principles guide managers in formulating policies, programmes, procedures, and practices. They also come handy in solving any vexing problem. Some of the personnel principles are:

1. *Principles of individual development* to offer full and equal opportunities to every employee to realise his/her full potential.

2. *Principle of scientific selection* to select the right person for the right job.

3. *Principle of free flow of communication* to keep all channels of communication open and encourage upward, downward, horizontal, formal and informal communication.

4. *Principle of participation* to associate employee representatives at every level of decision making.
5. **Principle of fair remuneration** to pay fair and equitable wages and salaries commensurating with jobs.

6. **Principles of incentive** to recognize and reward good performance.

7. **Principle of dignity of labour** to treat every job and every job holder with dignity and respect.

8. **Principle of labour management co-operation** to promote cordial industrial relations.

9. **Principles of team spirit** to promote co-operation and team spirit among employees.

10. **Principles of contribution** to national prosperity, to provide a higher purpose of work to all employees and to contribute to national prosperity.  

1.6.8 Procedures and programmes

For the accomplishment of the objectives of personnel policies, specific procedures and programmes are needed.

While a "policy" indicates "what" and "why," and "procedures" indicate "how" a policy is to be carried out. It spells out in detail all methods, processes, movements and specific rules and regulations, and indicates the steps, time, place and personnel responsible for implementing it. It tells us where an action is to take place and at what stage. Procedures go further than policies in helping to clarify what is to be done in particular circumstances. They are usually set up high-level managers and observed by first line of supervisors. They are less general than policies, and more specific in outlining the course of action and the sequence of activities necessary for the implementation of policies, and staff for the performance of the various tasks. They are periodically reviewed and reissued, pointing out the amendments and the areas of slackness.
Procedures tell us "how" the work is to be done, the programme tells "what." It consists of entire broad course of action governing employees at all levels. It can be thought of as a 'stable plan of action that continues over an extensive period of time." It is the end product of philosophy, values, concepts, principles, policies and procedures. Programmes represent simple or complex activities, presumably developed to carry out the policy. They are a step ahead of policy in that they simply the process of decision making and reduce it to a routine. Programmes may require appropriate action or practice at all level throughout an organisation. Practice (i.e., what is actually done in an organisation) and procedures are the specific actions that may be combined in a programme.32

According to Mee and Williams, "All expenditure of money, time and effort on a personnel relations programme should be justifiable in terms of the immediate, intermediate or ultimate objectives of an organisation that it is to support.

Some of the specific procedures and programmes are:

I. Human resource forecasting and planning.

II. Employment and related facts.

III. Training and development of employees.

IV. Management development programmes.

V. Evaluation techniques, wage and salary administration programmes.

VI. Employee benefits and services.

VII. Handling of employee problems.

VIII. Communication.

IX. Labour Relations.
1.7 Significance of Personnel Management in Urban Co-operative Banks

As far as the nature of work is concerned, the Co-operative Banks are in no way different from other commercial banks. But there may be differences in employee's performance, which has direct bearing on the personnel policies and practices of the banks. A rational approach to personnel management is essentially required for co-operative banks to enable them join the mainstream of banking in the country.

The co-operative banking system in India is federal in structure. It has pyramid type of three-tier structure constituted by: (1) Primary Credit Societies (it includes the UCBs); (2) Central Co-operative banks; (3) State Co-operative Banks. In each state, there is a State Co-operative Bank at the apex level. In each district, there is a Central Co-operative Bank and at the base level, there are primary credit societies which include primary agricultural credit societies, Urban Co-operative Banks etc.

The Co-operative banks have a history of almost 100 years. The Co-operative banks are an important constituent of the Indian Financial System, judging by the role assigned to them, the expectations they are supposed to fulfill, their number, and the number of offices they operate. The co-operative movement originated in the West, but the importance that such banks have assumed in India is rarely paralleled anywhere else in the world. Their role in rural and urban financing continues to be important even today, and their business in the urban areas also has increased phenomenally in recent years mainly due to the sharp increase in the number of primary co-operative banks (UCBs).

Co-operative movement in India has over the years grown to a size having 3.53 lakh co-operatives with more than 17 crores as members and 28 lakhs directors and more than 13 lakh employees.33

The Urban Co-operative Credit sector is a very important segment of the overall economy of the country. Urban Co-operative Banks have done
commendable job in meeting the financial and credit requirements of the urban poor and weaker section of the urban society, however, much depends on the people working in the sector. They will have to continuously endeavour to develop their professional skills with a view to providing top class service to their customers. Urban Co-operative Banks area of activity has vastly expanded after liberalization and financial reforms. Now they are allowed to undertake almost all activities hitherto carried out by the commercial banks including Merchant Banking.  

In the absence of sound Personnel Management Policies and Practices appropriate management decisions cannot be taken and the monitoring of their implementation cannot be done. Work culture and environment in Urban Co-operative Banks is greatly affected due to political interference. Systems and procedures are quite in place but they are most often misinterpreted, and at times not uniformly applied and updated. Authority-responsibility relationship overlap causing mutual mistrust, lack of delegation and delay in decision making. Operations Manual are often found missing in the branches and thus are not available for consultation especially to new staff who greatly depend on it to perform their assigned jobs. This leads to job dissatisfaction and frustration. Stock of stationery and other resource materials required for routine branch operations are usually not up to the mark causing delay in providing customer service. Training requirements of personnel are no properly identified and post training evaluation is literally missing.

As part of Indian Government’s commitment under WTO to open up financial sector India has offered to allow foreign banks to open 12 branches per year, but of 8 as at present. Therefore with the opening of financial sector in India the battle for survival among Indian banks will begin. This will further deepen as and when Tarapore Committee report on the Government implements capital account convertibility. It is in this context that the Urban Co-operative Banks should make a strategic move to broad base their
activities refocusing on eco-friendly and customer-friendly schemes to ensure sustained growth.  

The competition faced by Urban Co-operative Banks is wide and intense with strong competitors in public and private sector banks, which have widespread networks, professionally qualified workforce and far greater access to modern technology so crucial for banking activity.  

"Development involves not merely economic changes but also and institutional in many underdeveloped countries it calls for new sets of values and new concepts of society and government. No path to development is likely to be smooth. Banking is the base for economic development."  

"The approach to granting credit has been redirected from security to productivity".  

Urban Co-operative Banks constitute a key institution and have a distinct role to play in the multi-agency financial system of the country. They play a supporting role to commercial banks in urban areas. Urban banks promote banking habits among the low and middle income class people, collect local savings and provide loans to persons of limited means- small businessmen, small traders and retailers, small artisans. They also provide consumption loans for repair of house, purchase of articles of daily necessities and cover essential expenses such as medical expense. Further, with their special attributes- co-operative character, local feeling and familiarity, mutual knowledge of members, democratic management- Urban Co-operative Banks are in a position to play an useful role in filling up the credit gaps in the economy.  

The rapid changes in national and international economic scenario have brought in a metamorphic change in the Indian banking system. The banking in our country is no longer the same as it used to be a couple of years ago. It is neither expected to remain the same a couple of years after.
The manifestation of change in the system is large and vivid in all its forms; be its structural, attitudinal or qualitative.

Banking is an organisation basically of the people, by the people and for the people. Hence the need and importance of human element in a bank can never be ignored. As already discussed, the sudden change in the banking environment made the workforce off-guard and for a considerable period the banks remained direction less. The sudden impact of prudential norms created huge stockpile of Non-Performing Assets (NPA). The respective management's of the banks were doing overtime in devising strategies and making structural adjustments in order to set their houses in order. A thorough re-orientation in the attitude of the workforce was the need of the hour in order to fight out the challenges lying ahead of them.

Manpower management is undoubtedly the most important rather the most sensitive and critical areas of management that needs to handled with utmost care and diligence. It is always the people who get directly affected due to any change in policies, guidelines or methods. Their attitude, behaviour, commitment and interpersonal relationship; all get changed either for the better of for the worst with every change that comes in their way. The changed banking environment posed serious challenges before the banks' management. They have to fall in line with the global standards adopted by the private and foreign banks in order to remain competitive in the market.

Change in any sphere of life is inevitable. With the fast change in the global economic scenario, the banking system cannot remain unaffected. But the change in the Indian banking system has been a bit too fast. There has been some cross currents flowing to resist the change. But such resistance may not be strong enough to last long. It is, therefore, felt necessary that the HRM departments in the banks have to play a far greater role in transforming the mind-set and attitude of the banking people for taking the change in their stride. It is therefore, rightly said: "you cannot change the direction of the wind, but you can certainly adjust the sail."

[41]
In recent years, the banking industry has been undergoing rapid changes, reflecting a number of underlying developments. The most significant has been an advance in communication and information technology, which have accelerated and broadened the dissemination of financial information while lowering the costs of many financial activities. A second key impetus for change has been the increasing competition among a broad range of domestic and foreign institutions in providing banking and related financial services. Third, financial activity has become larger relative to overall economic activity in most economies. This has meant that any disruption of the financial markets or financial infrastructure has broader economic ramifications than might have been the case previously.  

□ □ □
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