Banking activities in India in earlier times were largely undertaken by indigenous bankers who were giving such services to traders as well as farmers. The first Indian bank organized on modern lines was set up in 1806. Industrialisation led to establishment of a large number of small banks; Indian banking was modelled more or less on the British pattern.

Most of the banks were originally owned and managed by big industrial houses. One of the major functions of the banks was to provide financial support to large industrial houses through the banking system. There was hardly any concern for bank's helping to the under privileged sectors of society.

After independence, India opted for planned growth which necessitated a strong banking system to boost the growth process. Banking operations came under a closer scrutiny and control of Reserve Bank of India. The Banking Companies Act, 1949 and its amendment in 1960 have placed more onerous responsibilities on the banks.

One important implication of the act of 1949 and its subsequent amendment was that a bank's actual financial position is not presented in its balance sheet and its accounts books are not open for inspection by any authority.
other than the Reserve Bank. Trade Unions and workers cannot evoke any authority to examine the bank's accounts books. This has significant implication for IR.

Social Control:

Though the Indian banking system had made substantial progress both functionally and locationally since independence, people at large were dissatisfied with the working of the commercial banks in the country. Social and community pressure for channelising bank credit to meet the needs of the small scale sector, agriculture and allied activities was gaining gradual momentum during this period.

In 1967, the government announced a policy for social control of banks. The basic objective of this policy was to ensure equitable and purposive distribution of bank credit. This was sought to be achieved by setting up the National Credit Council which was meant to: (a) reorient the outlook of banks (b) ensure flow of credit to agriculture, small scale industry and exporters and (c) improve resources mobilization by banks by reversing the trends of slow deposit growth. One expert on the Indian banking observed that social control was expected to achieve the objectives of nationalization without nationalizing the banks.

The social control scheme was accepted with great zeal by Indian commercial banks but enough time was not given for the scheme to show results. The government at that time felt
that much more fundamental changes needed to be made in the banking structure to make banking relevant to the poor strata of society.

Nationalization of Banks

On 19th July, 1969, 14 commercial banks were nationalized. The basic objectives of nationalization were:

a. to eliminate the concentration of economic powers in the hands of a few;

b. increased flow of bank credit towards priority sector such as agriculture, small scale industry etc;

c. fostering new class of employees so as to create, sustain and accelerate economic growth;

d. professionalisation of bank management;

e. extending banking services to unbanked rural areas.

Nationalization of banks opened new vistas before the banking system as a whole and gave a new dimension to the growth of economy. After nationalization, the public sector banks abandoned the obsession with the traditional concept of liquidity, safety and profitability and reoriented their credit policy to the urgent needs of the balanced economic
growth of the country in a socially desirable manner. Today banks lay relatively more emphasis on the purpose of the loan, viability of the project and the entrepreneurial ability of the borrower rather than his means, social status and reputation in the society.

During the first decade of nationalization, the banks made rapid strides in opening a number of branches in hitherto unbanked areas and also rendered signal services in financing agriculture and small scale industry. Encouraged by the experiment of nationalization and its fruitful results, government on 15.4.1980 nationalized six more scheduled banks. Thus over 90% of the banking in the country was brought in the public sector. In short, nationalization of banks was a bold and major economic step in the process of bringing reforms in the country.

The Banking Commission (1972) after examining the record of expansion of commercial banks' activities in rural areas and their limitations, expressed serious doubts about the capabilities of commercial banks for adequate coverage of rural sector in the foreseeable future and suggested creation of rural banks. In 1975, the proposal for rural banks was revived after the announcement of the 20 Point programme by the government and first rural bank was inaugurated on 2.10.1975. Thus another tier was added to public sector banking with the start of rural banks.
A distinctive feature of Indian Commercial banks is that it follows the systems of branch banking. Unlike other countries of the world, branch banking in India is unique. India is the country with a network of about 55000 banks branches. On account of branch banking system, Indian commercial banks have the following type of organizational structure:

BANK

HEAD OFFICE

ZONAL OFFICE

REGIONAL OFFICE

BRANCH

Post-nationalization Scene and Growth Problems:

The table below shows the development in business as well as increase in the number of branches and staff in the decade since 1969 in respect of 22 public sector banks. It can thus be seen that the expansion in this area is unmatched in the history of banking development anywhere in the world:
Table 3.1

PERFORMANCE OF PUBLIC SECTOR BANKS

( RS. IN CRORES)

<table>
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<th></th>
<th>1969*</th>
<th>1979*</th>
<th>1983+</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A) Capital Funds (Capital + Reserve)</td>
<td>98.05</td>
<td>362.39</td>
<td>699.04</td>
</tr>
<tr>
<td>(B) Deposits</td>
<td>4669.25</td>
<td>29553.83</td>
<td>60448.00</td>
</tr>
<tr>
<td>(C) Advances (Total)</td>
<td>3189.84</td>
<td>19333.00</td>
<td>39829.00</td>
</tr>
<tr>
<td>(D) Advances to Priority Sector.</td>
<td>671.64</td>
<td>8002.45</td>
<td>14113.07</td>
</tr>
<tr>
<td>(E) Branches</td>
<td>6633</td>
<td>22651</td>
<td>32035</td>
</tr>
<tr>
<td>(F) Staff</td>
<td>188536</td>
<td>475640</td>
<td>692672</td>
</tr>
</tbody>
</table>

* Performance of 22 public sector banks.
+ Performance of 28 public sector banks.
Source: Financial Analysis published by IBA.

This unparalleled growth, however, has brought about in its wake certain problems. In achieving the growth, the banks could not give adequate attention to several important aspects such as customer service, staff discipline, housekeeping etc.

Over the years, various experts and committees have pointed out the problems that the banking system has experienced due to break-neck pace of the expansion programme. Some of the problems identified are the problems of motivated and trained staff specially in the rural areas, management information system, system of follow-up and monitoring of
credit portfolio, profitability, customer service (Bandopadhyay (1978), Singh (1978)). A committee appointed by RBI and popularly known as James Raj Committee has also observed:

the rapid growth in the number of branches and their geographical spread over wider area of operation, at times remote from the head office of a bank have not only caused severe strains on the bank management, but also resulted in growing dilution of supervisory control and reduced the degree of contact of higher management with the branches which usually imparts greater work motivation to the staff (1978:18).

This in turn has led to delays in communication, delays in decision making.

In the eighties, a number of frauds both in India and abroad were reported involving in some cases the bank staff including top management. Issues relating to customer service, frauds, house keeping have been echoed in the parliament. The state of affairs of Indian banking never came for as sharp criticism as during the eighties. Even the Prime Minister remarked: "As for banking, the less said the better."
A seasoned banker and a former Chairman of a major bank summed up his observations as under:

All these quantitative growth has been at the cost of quality. Organizational strength could not keep pace with the break-neck speed at which the quantitative progress was being achieved. There was no respite, no time for consolidation, nor for training the new generation of bankers, whose role was to satisfy the authorities by fulfilling quotas of new branches and priority advances regardless of security and recovery checks.

It is thus evident that massive expansion of the banking industry has created a multiple problems.

**Important Features of Banking Industry**

The following are some of the important features of banking industry (Bhide and Khandelwal 1986):

1. Banking activities are mainly directed towards service to its customers. It does not produce any material goods. It plays an important role in the economic development of the country and in recent years, the banking industry is given the important task of socio-economic development.
2. In comparison with manufacturing organizations, banking operations demand a very high rate of interaction between the bank employees and the customers. These interactions make banking an extremely open system. What happens in a bank may be strongly influenced by the expectations across the bank's counters.

3. Banking operations are governed by very elaborate laws, controls and close scrutiny. Since the main transactions are in money, bankers are extremely cautious to avoid legal complications.

4. There is a very high level of inter unit transactions within a single bank and between different banks all over the world. This creates communication and correspondence gaps. Operations are complicated by varied international regulations governing such transactions.

5. Wages and service conditions of the clerical and subordinate staff in banks are covered by four successive bipartite settlements at the industry level between all India unions and the Indian Banks' Association, representing banks. In view of this, managements can hardly give any monetary incentive beyond what is provided in the settlement/awards. Thus, economic issues of collective nature are not subject matter of discussions at individual bank level.
6. As there are industry wide settlements on wages and service conditions, banks are vulnerable to industry-wide agitations creating dislocation in the entire industry.

7. There are strong associations of officers in the banks. Officers are often called a part of the management as they execute important responsibilities on behalf of the management and enforce rules. They too have organized and their organizations operate as protest organizations.

8. The most peculiar feature of the industry and particularly the public sector banks is the control of the government and the Reserve Bank of India in every respect. Unlike in other commercial organizations, it is only in banks that an authority outside the banks takes all important decisions such as:

(a) where banks will open their branches;
(b) at what rate of interest they will accept deposits;
(c) at what rate of interest they will lend;
(d) to whom they will lend and at what rates of interest and what security they may take;
(e) how the large borrowers of banks will manage their inventory and cashflow to get credit;
(f) what salaries, allowances and perquisites they will pay to their officers;
While all these factors are decided by an authority outside the bank, the banks are expected to show a high level of efficiency, higher profits and good customer service in all their branches.

9. Unlike an industrial establishment where administrative blocks are generally away from the gaze of factory workers, in banks the managers/officers are under constant scrutiny of their juniors. Their style of functioning has a great impact on the general pattern of behaviour of the staff.

10. The new generation of employees joining the banking industry are intelligent, educated and their intellectual level may be on par, if not better with that of the managers.

11. In view of the distance between the head office and the branches, the normal means of communication is written communication which has its limitations and problems. The lines of communication are much too intended to be efficient. This necessarily introduces bureaucratic orientation in a commercial organization, which ought to be run efficiently in a business like manner.

12. In view of the rapid expansion of banking industry, promotions have been fast and in some cases employees with only 3 to 4 years experience in the clerical cadre are
promoted. This creates problems of acceptability at the work place as also lack of maturity in handling diverse/difficult situations.

The above features of banking industry makes IR management much more complex in terms of operational efficiency and employee motivation.

**Importance of Industrial Relations in the Banking:**

Banking industry is one of the high profile industry in the public sector. The role assigned to it by the government makes it a major instrumentality of socio economic development in the country. Many strategic programmes of the government like agricultural growth, loans to educated unemployed, housing finance to poor, boost to exports, place banking at the centre of social development.

The quality of banking service is determined to a large extent by the quality of internal environment in the banks including the environment at the branch level. As banking is essentially a labour intensive industry and characterized by a strong line orientation, it is vulnerable to human problems arising out of multiple expectations in the society, nature of routine tasks and risk orientation. Despite similarities in the content and context of banking across the industry, the public image of the banks in terms of quality of service varies a great deal, depending on the concern amongst employees for customer service in each bank.
The management - employee relationship in banks have a historical context. At present IR in banks are characterized by fairly well stabilised bipartite relationship at the apex level (between Indian Banks Association and all India unions). The work place IR are, however, characterized by frequent disruption of work.

The attitude of the unions and employees are manifested in almost continuous challenge to management's authority to allocate work and take disciplinary action (Menon, Bhide and Khandelwal). The phenomena of multi-unions has already started showing its repercussions. There is almost a total break down of managerial authority and unions rule the roost at least at the work place level.

The apathy of management to tackle the fundamental issue in relation to personnel practices in the work place has only strengthened those who have created what Fox (1974) has described as continuous challenge from the below.

The deterioration in the quality of customer service has been repeatedly echoed by the All India Depositors Association which has considered union highhandedness due solely to management failure to take appropriate measures to tackle the situation. The depositers' association has demanded representation on the negotiating committee of the Indian Banks Association in the process of bargaining with unions (Gadgil, 1979).
Banks being open systems, they are exposed to public scrutiny and this makes them much more vulnerable to criticism than any other public sector organization. The managerial strategies dictated by the government as well as the top management in the bank seem to take IR in their stride treating it merely as a business constraint. The field of IR, therefore, suffers from biased and prejudiced reporting based on unanalysed facts and events.

Absolved from the direct responsibility for negotiations with the employees on wages and service conditions, many managements have given much less attention to IR issues than would have been necessary had they acted in individual capacity. The growth in the size of banks led to increasingly impersonal relations between top management and their work force and also made necessary a sub division of management function and the creation of a complex administrative organisation. Commentators on banking scene have often stressed the need for tackling the problem of IR to put the banking system in order (Shah 1985).

Harmonious IR is sine-qua-non for creating a climate of effective service. The nature of the banking makes it necessary to develop a committed work force. This makes IR management much more central to the issue of survival of banking itself. For one may wonder how long the load of banking can be sustained on the shoulders of demoralised and often reluctant group of bank employees.