CHAPTER 1
AN OVERVIEW OF INDIAN PUBLIC SECTOR BANKS
AND RELEVANCE OF HR STUDY

1.1 Introduction

The banking system in India is significantly different from that of other nations because of the country’s unique geographic, social, and economic characteristics. India has a large population and land size, a diverse culture, extreme disparities in income and high levels of illiteracy among a large percentage of its population. But, at the same time, the country has a large reservoir of natural resources and vast pool of potential human capital with 24 per cent of 1.20 billion people are in the age group of 25 as per RBI economy report (2012). Thus, our country has become destination for sourcing quality workforce and potential market place for domestic and multinational companies.

Between about 30 and 35 per cent of the population resides in metro and urban cities and the rest is spread in several semi-urban, and rural centres comprising 6.50 lac villages. Agriculture is a tradition which has shaped the culture and economic life of the people and therefore will continue to be central to all strategies on planned socio-economic development of the country. In this context, it is worth to recapitulate the thoughts of first Prime Minister of India Pandit Jawaharlal Nehru, ‘If Agriculture does not go right, nothing else will’ which speaks the importance attached to the agriculture. Thus, the country’s economic policy framework combines socialistic and capitalistic features with a heavy bias towards public sector investment. India has
followed the path of growth led exports rather than export led growth of other Asian
economies, with emphasis on self-reliance through import substitution.

Today, India is one of the fastest growing economies amidst global uncertainties.
Nonetheless, it is pertinent to note that the growth is not uniform across the sectors
viz., Agriculture, Industry and Service Sector, causing aberrations to the desired
economic development process as evidenced from the sectoral share of GDP since last
two decades (RBI economy report, 2012). The year on sectoral growth of GDP from
1991-2012 indicated that India’s economic growth is primarily driven by the services
sector where as the contribution by the Agriculture and industry sectors have shown
decreasing trend from the last two decades.

The trend shows that the economic development so far been largely limited to the
urban population and is yet to widely percolate to the rural population with 62.11 per
cent in the villages belongs to lower middle and lower income strata. Further, as per
census 2011, the literacy growth rate in rural area is higher (15.99 percent) compared
to urban areas (5.73 percent), which indicates the keenness of the rural population to
educate their children despite hardships. The increased literacy rate coupled with
disguised unemployment in the farm sector has been forcing the rural masses to look
for non-farm activities to supplement their family income from the urban areas. But
still, Agriculture Sector assumed as an important engine for economic growth as it
provides livelihood to 3/4th of the country’s population besides becoming significant
source for raw material for many industries (BANCON 2012).

Deepali Pant Joshi, Executive Director (ED), RBI endorsed this view further
(2013) that Agriculture still plays a critical role in maintaining macro-economic
balance especially in generating private consumption demand necessary for growth,
and the rural market potential attracts all consumer durable including
electronic/mobile industries for their financial stability and sustainable growth. Agriculture has a multiplier effect to lead war on poverty to attain Government’s National Agenda on Food Security for households to bring about equity in the distribution of income and wealth as opined by the ED of RBI. The features outlined above are reflected in ‘the structure, size, and diversity of the country's banking and financial sectors’.

1.2 Development of the Indian Banking Sector

India had a fairly developed commercial banking system in existence at the time of independence in 1947, with 637 commercial banks operating in the country (RBI 1947). The Reserve Bank of India (RBI) was established in 1935 and became a state owned institution to serve as a central bank of the country from 1st January, 1949. The Government of India (GOI) simultaneously enacted the Banking Regulation Act in 1949 providing a framework for regulation and supervision of commercial banking activity by RBI.

The Government of India perceived that loans extended by colonial commercial banks were biased toward working capital for trade and large firms (Joshi and Little 1996). Hence, “GOI took the view that the banking system has had to serve the goals of economic policies of the country’ particularly concerning equitable income distribution, balanced regional growth, elimination of poverty, and the control of private sector monopolies in trade and industry”.

The first step towards the nationalization of commercial banks was initiated on the behest of a report (under the aegis of RBI) by the Committee of Direction of All India Rural Credit Survey (1951) which till today is the basic frame work on the subject. The Committee recommended one strong integrated state partnered commercial banking institution to stimulate banking development in general and rural
credit in particular. Thus, Bank’s had been assigned the role of assisting and mobilizing financial resources to strategically important sectors such as agriculture, small-scale industries, exports, and infra-sectors in the commercial, as well as rural centre.

In order to serve as an instrument of state policy enunciated in successive five year development plans, the Indian banking industry was subjected to various nationalization schemes in different phases (1955, 1969, and 1980) which led to the birth of public sector banks (PSBs) and other development financial institutions.

1.3 Emergence of Public Sector Banks
As a corollary of the state policy, the Imperial Bank of India was taken over by the Government and renamed as State Bank of India (SBI) on 1st July, 1955 with the RBI acquiring overriding substantial holding of shares. A number of erstwhile banks owned by princely states were made associates of SBI in 1959 (7 banks), like State Bank of Travancore (SBT), State Bank of Hyderabad (SBH) etc. Thus, the beginning of the Plan era in 1952 (Five Year Planning Process) also saw the emergence of public ownership of one of the most prominent of the commercial banks.

There was a feeling that though the Indian banking system had made considerable progress in the‘50s and‘60s, the credit deployment to Agriculture, small industries and other plan priorities is negligible with overriding influence of private banks to serve commercial and industry houses including the state owned SBI and its associate banks.
To meet these concerns, the Government introduced the concept of social control in the banking industry in 1969, aimed at bringing some changes in the management, and distribution of credit by the commercial banks with an objective to serve with a focus for development of the economy in conformity with national priorities and objectives. In tune with the concept of social control, to serve as an instrument of state policy, the Indian banking industry was subjected to various nationalization schemes in different phases (1955, 1969, and 1980) which led to the birth of public sector banks (PSBs). Thus they had been assigned the role of assisting and mobilizing financial resources to strategically important sectors such as agriculture, small-scale industries, exports, and infra-sectors in the commercial, as well as rural centre.

The classification of commercial banks into scheduled and non-scheduled categories was made at the time of establishment of RBI in 1935. All commercial banks operating in India including Public, Private, Foreign and Regional Rural Banks are categorized as Scheduled Commercial Banks (SCBs), and Co-operative banks as non-scheduled banks besides other categories belonging to development financial institutions of State and central Governments.

In a nutshell, the banking sector performs three primary functions in an economy: the operations of payment systems, the mobilizations of savings and the allocation of savings to country’s vital investment projects which is amply witnessed in the current India’s financial system/structure:

1. Commercial Banks (SCBs):
   a. Public Sector
   b. Private sector
   c. Foreign Banks
   d. Regional Rural Banks
2. Co-operative institutions:
   i. Urban co-operative banks
   ii. State co-operative Banks
   iii. Central co-operative banks

3. Financial institutions:
   a. All – India Financial Institutions (AIFIs)
   b. State financial Corporation’s (SFCs),
   c. State industrial development corporations (SIDCs)


However, the nationalization policies, and the processes of Government of India utilizing banking sector as an instrument to finance its own deficit, had impacted the efficiency and profitability of the banking system to a greater extent and many public sector banks incurred losses, inefficient, and unsound owing to their poor lending strategy, state of monopoly and lack of internal risk management under government ownership (Sayuri Shirai, 2001).

The adverse developments in the banking sectors coupled with “current account crisis” (3 per cent of G\textsuperscript{DP}) in early 1991 and poor macroeconomic performance characterized by a public deficit of 10 per cent of G\textsuperscript{DP}, and an inflation rate of 10 per cent, necessitated the GOI for introduction of financial sector reforms which has been one of the central issues facing emerging markets and developing economies. This is because sound financial systems serve as an important channel for achieving economic growth through the mobilization of financial savings, putting them to productive use and transforming various risks.
Hence, to overcome the problems of India’s financial sector and also to improve the operational efficiency and profitability of the Banks particularly Public Sector Banks, which had long been characterized as highly regulated and financially repressed, financial sector reforms based on International financial Standard were introduced progressively from 1992, and 1998 in two phases in terms of Narashimham Committee appointed by the Government of India.

Reform steps taken since then included deregulation of interest rates, an easing of directed credit rules under the priority sector lending, reduction of statutory pre-emptions of (CRR+ SLR), and a lowering of entry barriers for both domestic and foreign banks to infuse a corporate element of competition among the bank groups. These measures paved way for accelerated performance of the Indian banking sectors and the PSBs has been playing a dominant roles in improving country’s economy in commanding heights from 1992 to till today (Sayuri Shirai 2001, and C. P. Chandrasekhar and Jayati Ghosh 2013). To sum up the reform period initiated from 1992 to the current ongoing period is construed as the ‘progressive phase’ of the Indian banking sectors, particularly for the Public Sector Banks.

1.4 Performance of Public Sector Banks

Nationalized banks (20), SBI and its associates (6) and private sector (22), foreign banks (41) and RRBs (64) accounted for 52.4 per cent,22.0 per cent, 18.07 per cent, 4.00 per cent and 2.9 per cent of aggregate deposits of Scheduled Commercial Banks amounting to 74,295 billion (IRs) respectively, as on March, 2013. With respect to gross bank credit of 58,797 billion (IRs), nationalized banks holds the highest share of 51.0 per cent, SBI and its associates at 22.70 Per cent, and the balance of 26.30 per cent shared by other SCBs.
The credit-deposit (C-D) ratio of the SCBs as on March 31, 2013 stood at 78.1 per cent. At the bank group level, C-D ratios of Foreign Banks (91.56 per cent), State Bank of India and its Associates (85.22 per cent) and Private Sector Banks (81.9 per cent) were higher than the all-India bank average. Comparatively, PSBs accounts for 76.78 per cent of the total business mix (deposits + advances) of 1,33,092 billion IRS of SCBs (table 1.1).

Public Sector Banks played a dominant role in country’s electronic payment systems effected through its 69,652 ATMs, 260.6 million debits cards out of 331.2 million cards of SCBs, besides large volumes of transactions observed in ECS, NEFT and RTGS modes (RBI Report on Trends and Progress of Banking 2011-12 and 2012-13).

As on Mach 2013, the scheduled commercial banks including Regional Rural Banks (RRBs), have vast network of 98154 branches with an employee mix of 10.96 lakhs and the share of PSBs is 86 per cent in the branch network with 84380 branches with an employee base of 8.01 lakhs (73 per cent).

It shows that the PSBs are playing a major role in the country’s economic and societal development in an environment of competition from private and foreign banks. India’s banking industry is well set to reach US$ 4.0 trillion by 2020, from the current level of IRs.77 trillion (US$ 1.30 trillion) in synchronizing with global financial standards and norms with a dominant role for PSBs (Brinda Jagirdar, 2011).
### Table No. 1.1  Performance of Public Sector Banks

*(Amount in ` million)*

<table>
<thead>
<tr>
<th>Items</th>
<th>Period-wise Aggregates</th>
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<tbody>
<tr>
<td>No. of banks</td>
<td>28</td>
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<tr>
<td>No. of offices</td>
<td>55103</td>
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<tr>
<td>No. of employees</td>
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<td>Investments</td>
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<td>CRAR per cent</td>
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<tr>
<td>Net NPA ratio per cent</td>
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*(Source: RBI Bulletin)*

### 1.5 Policy Reforms and Regulatory Environment in the Banking Sectors

#### 1.5.1 Role of Government of India (GOI)

As regards the policy environment, it must be recognized that almost the whole of financial inter-mediation was on account of public sector, with PSBs being the most important source of mobilization of financial savings, as an envisioned role to serve the goals of economic policies of the country pursued and directed by GOI. The major thrust was on expansion of banks’ branches, provision of banking services and mobilization of deposits and directed lending with a main focus on Priority sector (40
per cent of total credit) such as Agriculture, Small-scale industries, exports, small business, and ‘more thrust on infrastructure project funding such as power, mining, aviation, steel, roads and textiles since 2000s’.

The policies of prudential accounting standards and other measures of Narashimham committee as discussed earlier to fall in line with international financial standards, selection of CMD and EDs, HR policies and industry wide wage settlements of Public Sector Banks are greatly influenced and guided by the GOI, besides selecting and nominating directors to the boards of public sector banks.

Further, the Government of India has strengthen the capital adequacy of the PSBs by infusing capitals from 1991 and it continues till today and the Govt. provided Rs.120 bn and Rs.125bn during 2011-12 and 2012-13 respectively to various PSBs to maintain the capital adequacy at 9 per cent, as per BASEL II norms, and also its equity above 51 per cent.

The Government of India (GOI), “thus combined in itself the role of owner, regulator and sovereign and authorized statutorily the role of Reserve Bank of India (RBI) as an extended arm of the Government” to regulate the entire financial sectors, with a provision accord highest priority and co-ordinated actions in regard to activities particularly of PSBs.

1.5.2 Functions of Reserve Bank of India

The RBI Act of 1934 and Banking Regulation Act 1949 empower the RBI as a central bank of the country, to regulate the issue of bank notes (currency), maintain reserves with a view to securing monetary stability and to operate the credit and currency system of the country to its advantage. Besides, the RBI acts an adviser to GOI on all monetary and banking matters.

RBI since independence, particularly after its nationalization in 1949, has followed the promotional and management functions vigorously: Promote the credit
operations of banks for strong financial support to industrial and agricultural development in the country, Controls and supervise the commercial and co-operative banking system through on-site inspection and off-site surveillance. RBI Controls and regulate the operations of Foreign Exchange besides to act as the custodian of India's reserve of international currencies and to ensure/infuse safety, security, and liquidity of public money. Besides, it serves a significant role to moderate the inflation in the country through various a monetary tools like Repo, Reverse Repo, CRR, and SLR etc. through the banks for the control of economy.

As evidenced from the flow of reviews made in this chapter since independence, the Indian banking industry is considered as an important driving force behind the nation economic development and it has been continuously going through a process of transformation since the nineties, due to the introduction of liberalization, privatization, globalization (LPG), Information and communication Technology (ICT) and international banking standards and procedures (BASEL and IFRS norms).

1.6 Challenges and opportunities to the banking sectors

Today’s banking has become knowledge based and technology driven. It is poised to quadruple in the current decade in terms of size and reach. The major trends, challenges and opportunities that will shape the banking metamorphosis across the entire banking landscape i.e., in the areas of ownership, structure, system and procedures, market place, products, delivery channels, technology, management process etc, in the current decades are compiled from the review of literature clusters: Global consulting firms (Mekinsey studies, 2010), Khandelwal committee on HR issues of PSBs (2010), and BCG, IBA and FICCI 2012 study report on Indian Banking 2020- Challenges and opportunities, and the other literature reviews over the decades.
1.6.1 Opportunities

- Indian Demographic Dividend Spurs Retail Lending to Over Rs 40 Trillion by 2020
- Income divide and Next Gen drive wealth management and allied products to 10X size
- Massive Expansion of Branches and ATMS to Serve the huge Bankable Population
- Harnessing Mobile Telephony for wider outreach and optimizing delivery costs
- CRM and data warehousing leverages next wave of product transformation
- Infrastructure financing to hit over Rs 20 trillion on commercial banks books
- MSME MID Corporate, Agriculture and wholesale banking- the avatars for growth and profitability

1.6.2 Critical Challenges of the Decade

The industry is under spotlight to find solutions for “four complex critical challenges” thrown at it. One challenge comes from the democratic polity of the nation — to find an economically viable solution for financial inclusion. The other challenge comes from within the banks and more so for public sector banks — Burgeoning Non-Performing Assets (NPA), Profit margins fourthly to streamline the prevailing ineffective HR system.

While these challenges demands unusual innovation and experimentation, ‘the HRM factor’ threatens to cripple the ability of the largest segment of the banking industry, the PSBs, from being able to innovate and stay competitive (Chakrabarty, KC, 2012).
### 1.6.2.1 Financial Inclusion

The future of democratic polity and social harmony of India rests on the premise of ‘Financial Inclusion’, a crucial driver for inclusive growth as recognised globally. The political leadership is looking at the banking industry with PSBs as the prime mover to deliver on this premise over the next few years. In the Indian context, financial inclusion is defined "as the process of ensuring access to financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income group in particular at an affordable cost and in a fair and transparent manner by regulated mainstream institutional players".

The status of financial inclusion: Effectively, 145 million households have no access to banking, 50 per cent of the population has no bank accounts, and 17 per cent of population has any credit exposure, and 70 per cent of the low income quartile borrows from informal sources such as friends, relatives and money lenders at interest rate upwards of 24 per cent as per statistics of 2010, besides overall insurance penetration in the country is dismally low at 4 per cent for a population of 1.20 billion as on 2013 (Bindu Ananth and Chakrabarty, KC 2012 and Vijayan, TS, Chairman of IRDA, 2013).

The outreach of these social bodies (SHGs) to 9.7 crore households with their homogeny, group dynamics and handling financial transactions make them an ideal platform for not only financial but also for social inclusion for empowering rural women. *This is a real ‘nanovation’ in banking as it addresses all sorts of last mile challenges in delivering financial service to the unbanked in a cost effective and scalable manner, according to Rana Kapoor, CEO, Yes bank, (2011).*
India has been emerged as the second largest mobile users globally with 900 million users by making inroads into vast remote villages. It is estimated by BCG that even if 25–30 per cent of mobile users have activated GPRS/3G modes, there would be 250 to 300 million customers who would access banking services over the mobile more frequently in this decade of 2020. Thus, Mobile banking is yet another key to achieving financial inclusion.

Indian postal service with a network of 1,54,822 branches (90 per cent in rural areas) is globally the largest in its category, may ‘offer new dimension to financial inclusion and to the banking system as whole’, if RBI sanction their application to function as a public sector bank, as the proposed new bank licensing policy primary objective is to promote financial inclusion.

As such, the philosophical framework to fight financial exclusion has undergone a significant shift from “an obligation perspective to an opportunity perspective” and Indian banking sectors will be to accelerate the pace of financial inclusion on a sustainable/profitable basis.

1.6.2.2 Burgeoning Non-Performing Assets (NPA)

In a paper presentation at Bancon 2013, Dr.Chakrabarty, RBI Deputy Governor said: “As a regulator, I am more concerned about the future of the banks. One factor affecting future of the banking industry is non-performing assets”. He pointed out that the NPAs had started rising from 2006-07, before the financial crises, and it was the non-priority sector that impacted GNPA (gross NPA) ratios in higher proportion for the last three years up to 2012-13 and pointed out that the “NPAs of PSBs” have been higher than new private sector banks, and comparatively the latter had better credit/NPA management system than the PSBs.
The magnitude of the problem was that PSBs accounted for 64.50 per cent’s total NPAs while their share in total bank credit was 75.2 per cent as on 2009, which remained almost at the same level as of September 2013.

Further, the overall asset reconstruction in the banking system which touched Rs.3.25 lakh crore as of June, 2013, with major share to PSBs, has gone out of control according to RBI Executive Director Sri. Mahapatra B, another panel chairman in the conference. NPAs and the restructured loans impair greatly the earning capacity of banks due to higher provisions and larger amount locked up affects recycling and to allocate funds to match the mandatory capital adequacy.

Prabhakar, B.A., and Biswa Swarup Misra (2013) presented an interesting perspective to the RBI Governor’s lamentation on PSBs lax attitudes on mounting bad loans. New private sector banks (NPBs) which had higher bad assets compared to PSBs, fared well in NPA reduction due to lag effect of higher credit growth in 2008 and 2009 on account of diversion of credit portfolios to retail sectors coupled with writing off all NPAs virtually during 2009-10, they argued.

They attributed certain other reasons on the alarming status of NPAs in PSBs: the NPAs of PSBs started increasing from 2010 onwards, but more sharply during 2012 and 2013 due to infrastructure loans goings bad and the banks migration to system driven tracking of NPAs from 2010 onwards coupled with growth slowdown in the economy. However, PSBs were supportive of the government’s attempt to sustain growth at higher levels by lending to infrastructure sectors more than the private sector banks.

Addressing the Bancon 2013, Sri. Rahuram Rajan, RBI Governor pointed out that the short tenure of bank chiefs of PSBs (major CMDs have 1.5 to 2 years) has been part of the problem for the toxic assets prevailed in the system.’
The natural and the worst way for a bank management (CEOs), with limited tenure, to deal with distress was to extend and pretend to evergreen the loan, hope it recovers by a miracle, or that one’s successor has to deal with it,” he said.

All said and done, the people at the helms of banks should introspect, and innovate to leverage the well merited instruments available in the system for early recognition and better resolution to prevent and control NPAs besides for better recovery of distressed loans, and “it is the human capitals in the banks that are going to address this critical complex challenge”.

1.6.2.3 Banking Profit Margins under severe pressure

The current decade will see a dramatic change in Profit margins of PSBs. IBA survey (2010), conducted across banks on future trends of banks profitability revealed that the public sector banks expect to see their margins squeeze on ROE (return on equity), ROA (return on advances) and NIM (interest income-income expended) with a much higher likelihood as compared to the private sector/ foreign banks, due to higher provision on NPAs and other operating expenses.

PSBs have to focus on reducing their operating expenses (OE), particularly wage bill which was at 13.72 per cent and 13.09 per cent of OE for the years ending 2012 and 2013 compared to 12.22 per cent and 11.61 per cent respectively for the private banks, suggesting some improvement in operating efficiency of the HR variables which has cascading effect on NIM and ROA.

1.6.2.4 Human Resource Challenges

Being a service as well as a financial organization, the success and survival of the bank depends upon the bank’s human capital. It is widely recognized today that the human beings are most valuable organizational resources and knowledge capital and they are to be preserved and managed properly.
Overall, the people processes in PSBs appear to be inadequate and HR has become a new risk—possibly the biggest in the system, considering the new challenges and opportunities of new age banking with huge human capital deficit as diagnosed and disclosed in a series of studies in 2010 (McKinsey and Co., Khandelwal committee on HR issues of PSBs, and M/S Boston Consulting Group (BCG) jointly with IBA (Indian Banking Association) and FICCI (Federation of Indian Chamber of Commerce and Industries).

1.7 Relevance of Job Satisfaction Study in a Public Sector Bank

Human Resource Management is important for banks because banking is a service industry and has been and will always be a “People Business”. How you manage people and how you manage the business risks determine the success of any business, and it matters most for banking industry in an era of high level of competition from private and other financial institutions, and compliance requirement of international financial standards.

In spite of their impressive growth and massive contribution in the nation building after Independence, the PSBs have increased their manpower by a meager Compound Annual Growth Rate (CAGR) of around 0.5 per cent to achieve a balance sheet growth of 22 per cent during the period of 2007-10 (McKinsey report, 2010).

The PSBs suffered further by high levels of attrition too, which is around 20 to 30 per cent, especially at junior scales and clerical staff, in addition to loosing middle/senior management due to rapid retirement in the current decade. There is a leadership capacity gap of at least 12,000-15,000 people in branches, regions, businesses and functions in each bank due to thin leadership pipelines which adversely affects the succession planning (Khandelwal committee 2010).
However, the stakeholders of PSBs (GOI, RBI and PSBs) have systematically neglected this very workforce during the journey period, on the pretext of overstaffing, low productivity and profitability by totally overlooking their social contribution besides its vast potential to contribute to nation’s economy. As such, PSBs today are seriously handicapped vis-à-vis their competitors in the market place in terms of huge human capital deficit as discussed and the HR challenge facing the public sector has reached a tipping point, in the context of changing roles and skills requirement.

To sum up, the HR function in most PSBs is overwhelmingly maintenance-driven, compliance and control-oriented and industrial relations focused. Barring some ad hoc measures in promotion methodologies and training systems, the core of HR has lacked long-term strategy to integrate business, people (employees) and customer. Dr. Khandalwal, ex-CMD of Bank of Baroda and chairman of Khandelwal committee on HR Issues of PSBs (2010) reported that the talent acquisition policies pursued over the decades lacks direction and vision.

Livelihood was not the only reason of working in any organization. As Henry Ford famously said “why is it every time I ask for a pair of hands, they come with a brain attached?” The people then understood that apart from livelihood, there is something else required, and the something else was termed ‘Job satisfaction’. Industries are now in the Knowledge Age and hence, people work for ‘Empowerment’ in general, and transformation of HR system in this direction is the key to success of the PSBs.

The work which gave birth to humanistic approach in business and industry was known as Hawthorne experiments conducted by Elton Mayo and his colleagues (1924-1933). The core point of these studies is human relations approach to human resource management which aimed at recognizing the individual and group behaviour of people at work, and treating employees as human beings in the strictest sense,
which influences their need satisfaction process and help their personal growth in the organization. The essence of the results of the Hawthorne experiments was the concept that an organization is a social system and the worker is indeed the most important element in it. A worker is not a simple tool but a complex personality interacting in a group situation that is hard to deal with and thoroughly misunderstood.

Too often, it is common that we measure everything and understand nothing. The “three most important things we need to measure in a business are customer satisfaction, employee satisfaction and the cash flow”. The customer satisfaction at higher level would increase your market share. The employee satisfaction gets you productivity, quality, pride, creativity and the cash flow which is a vital key of a company as propounded by the chief executive of General Electric, Jack Welch (2000). Hence, job satisfaction of employees contributes positively to leverage productivity and customer satisfaction to enhance profitability of a company.

The Blessing White research of 2012, reported that employee engagement represents an alignment of maximum job satisfaction (‘I like my work and do it well’) with job contribution (‘I help achieve the goals of my organization’). They have a line-of-sight on their own future and on the organization's mission and goals for sustainable productivity, that would contribute in greater measures to productivity and profitability of an organization for overall business success.

A Deloitte study on why HR leaders need to think like economists (2013) revealed that it is possible to establish a clear numerical relationship between good human capital management (employees) and enhanced financial results (Performance) such as cash flow, profitability and margins, and customer value added by business levels.
These research reviews provided strong evidence through successive studies by the scholars, eminent bankers, global research institutes and consultants over the decades that people work for purpose other than pay.

It is pertinent to report here that many research Studies conducted on PSBs are mainly relating to Financial Performance analysis of PSBs on Pre and Post Reform Process, priority sector lending and pro-poor innovation of the Banks, effectiveness of customer service, Credit management, and Recovery of NPAs, IT Services and so on. Few studies were conducted in the HR field such as Job satisfaction of Public and Private sector Employees of the Bank, Job Stress and work motivation.

Therefore, the researcher with his multifarious exposure and wisdom has identified certain critical job factors that have not been studied adequately in the past, but would contribute more significantly to the job satisfaction of employees in PSBs along with established job factors stemmed from the mass of literature and foregoing thoughts.

On this premise, he visualized a need for the current study on job satisfaction of employees in a PSB with intent to offer some practical suggestions on the overall perspective of HR management in banks in the midst of progressively evolving Indian global economic scenario, as it's the 'people in the sectors who are the real strength of the organization, and managing the transformation. As a corollary, this researcher, who had retired in September 2010 as a senior banker of IOB has motivated to undertake research on the proposed project title of ‘Job satisfaction of employees in IOB’, to add value to the existing cluster of literature on the subject.
1.8 Statement of the Problems

1.8.1 Human Resources: a ticking bomb

The Public sector banks (PSBs) have been playing a dominant role in country’s economy as discussed earlier since its nationalization. However, overall, the people processes in PSBs appear to be inadequate and HR has become a new risk—possibly the biggest in the system, considering the new challenges and opportunities of new age banking and market driven economy.

McKinsey had made some revealing observations that PSBs would have dearth of talented manpower by way of losing experienced senior executive and middle management at an unprecedented rate due to retirement in the current decade (2010-20).

The PSBs suffered further by high levels of attrition too, which is around 20 to 30 per cent, especially at junior scales. There is a leadership capacity gap of at least 12,000-15,000 people in branches, regions, businesses and functions in each banks as identified by Khandelwal committee as leadership pipelines are extremely thin which adversely affects the succession planning.

As such, PSBs today are seriously handicapped vis-à-vis their competitors in the market place in terms of huge human capital deficit as discussed earlier. The Bankers have to take note of HR problems:

1. Huge human capital deficit particularly in middle, senior and top management,
   
   Inducting talent in large numbers in clerical and JM cadres to retain their market shares,

2. Banks are striving to find an innovative selection process to spot out talented people to drive financial inclusion agenda as a part of recruitment techniques,
3. Yawning generation gaps create a problem to PSBs to merge synergy between New Gen cohorts and senior employees,

4. Escalation of per employee costs in PSBs (which is currently 62 per cent as against 50 per cent globally for most banks),

5. Lack of clear role definition, massive re-skilling to un-learn and re-learn,

6. Insensitive and ineffective Performance Management system to career and leadership development, rewards and incentive, non-transparent, promotion, transfer and placement,

7. Thin leadership pipeline impacting succession planning in the banks,

8. Staff accountability syndrome, is a distress factors to employees at levels,

9. PSB is under spotlight to find an economically viable solution for country’s national agenda of “financial inclusion”,

10. *Most critical problem is management of New Gen employees who are viciously talented, risk taking and highly ambitious, for them appreciation is a learning appetizer and grave for constant feedback and social recognition in visible format which steps in as a new currency as a motivator*,

11. Undue influence of Govt. of India (GOI) on major HR policy issues of PSBs, as a promoter and major shareholder, more pronounced in the promotion policy of “one size fit’s all”,

12. *HRM policies and practices in terms of pay packages, rewards and incentives, promotion process, co-worker relations, fringe benefits etc., have been evolved rimarily through reactive process in the Public Sector Banks between the Bank management, Government and Trade unions.*
Thus, a defining moment is being presented before the nationalized banks to transform the prevailing HR architecture. Banks have to understand that the capital and technology are viewed as the most important pillars of banking and are replicable, but not the human capital which is considered as a valuable capital investment for the achievement of competitive advantage of the Public Sector Banks (PSBS).

Khandelwal committee report on HR issues of Public Sector Banks (2010) which had gone into the gamut of HDR climate as per the direction of GOI, reported that ‘the process of banking reforms in the Indian banking industry was set in motion with the Narashimham Committee Report, in accounting and other areas’. However, HR issues of PSBs have not been addressed probably because of their obsession with industrial relations. Therefore, HR issues have suddenly come to the centre-stage in PSBs.

*If there is one single lesson to be learnt from the entire process of transformation the world over, it’s the ‘people’ in the bank, who are the real strength of the organization, managing the transformation and opportunities evolving along their journey to capture the changing dynamics of banking in the decades (Dr.K.C.Chakrabarty, HR conclave of PSBs 2012). With four decades of legacy to overcome, it requires careful orchestration of initiatives to ‘enhance motivation, engagement and job satisfaction’ of the human capital.*

*It is clear that the banks should have to accord highest priorities to ‘Human factor’ which is the heart and soul to work in concert to address the life-line challenges and problems of Public Sector Banks in the decades ahead concurrently and progressively.*

On this premise and back drop, the author begins the journey to reach the objectives of the current research very happily.