CHAPTER – 2

HRM PRACTICES IN BANKING SECTOR

2.1 Human Resource Management Practices in Banking Sector

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2.1 HUMAN RESOURCE MANAGEMENT PRACTICES IN BANKING SECTOR

In today’s scenario the role of banking is very much leading and playing essential role in service sector. The service sector is contributing more than half of the Indian GDP and bank is the one of the most important service sector in India. This has leaded the socio economic development too. The word bank has replaced with the word innovation banking because the information technology had entered in banking sector. This has given rise to new innovation in the product designing and their delivery, finance industries, customer satisfaction. The innovation banking is not confined to this only but provides security privacy and confidentiality to transaction. This going developments in this global world also give rise to many opportunities to the banking sector i.e. customer satisfaction the important one. This all can be done by an efficient and effective human resource.

When the organization adapts something new or any kind of change, it first needs to change human resource i.e. the management of human resources is very important. The effective working of any organization depends upon human resources. So the Human Resource Department should keep all round development of human resources in organization so that when the environment changes they should be dynamic and responsive to the changes. It is not the time where the capital and technology are constituent as the pillars of banking; it’s a time of human resources. Human resources are known active in every field whether it is banking sector or any other sector. Human resource is now considered as useful resources for achievement of competitive advantage. The long term vision for the banking sector is that they should be more active and move their vision from being domestic to the global level. The long term vision does not only require global level but it also requires for reaching the heights of international excellence, it requires the combination of many things such as up to date technology, etc.

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better processes of credit and risk appraisal treasury management, product diversification, internal regulations and the most important one human resources.

The bank is facing challenges by the different phases of business cycle. The financial instrument which is used as a challenge covers differently in Indian financial system and international financial system. In early phases of banking the education of man power was not up to the mark. The selection criteria of bank are fully dependent on the education of employees and seniority and talent was not considered at that time. But according to the time things have changed a lot now human resource management department is there to decide the criteria. Human resource management has some rules of recruiting and selecting employees and to attract and retain the best talent. Now the primary and most important assets is only the human resource in context of this changing economic and business environment.

The banking sector has been growing at a very fast pace in India not only in terms of services but also in terms of capabilities of human resources. The human resource management can be activated when the organization provides the proper human resource development system to their employees i.e. a process where employees are prepared to meet the requirement of the organization with their potential. This is the era of competitive advantage where by assisting employees with their present job and searching out their talent and potential for the future jobs is very essential. Every person posses some hidden talent but does not comes out until the proper platform and direction is provided, developing the human resource with appropriate and systematic efforts will definitely helps the bank which is only done by proper human resource management and department.

Banks are offering many facilities to their customer which gives rise to the word competition for the banks. ²The new economic environment has posed new challenges

and opportunities for the banks. Banks are shifted their orientation from technology based and price based competition to human based competition i.e. having the knowledge and skillful employees in their organization. The change in attitude of employees is required to meet the increasing demand and client expectations. The banks are setting up their human resource development department. These departments are gaining importance in banks. There are many cases related to banks where the human resource development department discharges personnel administration functions of recruitment, training and development but this also have change to activities like man power planning and performance appraisal. The introduction of some latest human resource management activities and sub systems such as systematic induction of employees, quality circle, staff meetings are some new practices concerned towards introducing these systems.

Human Resource (HR) practices and job satisfaction of employees in banks provide significant benefits and helps organization to manage the challenges to survive and to stay in the competition. The practices fulfill the need of the organizations in terms of higher flexibility, higher product quality and higher performance with the cost competitive by inducing workers to work harder and using the skills and information. The human resource management role in banking is very important for the transformation of banking sector. Mr. M. Narasimham, the 13th Governor of Reserve Bank of India, in their reforms in year 1991 focus on the number of problems relating to human resource management in banking such as over manning, low man power productivity, indiscipline, restrictive practices, lack of management commitment to training and their development etc.

The success of any organization whether it is service sector or manufacturing sector depends on its human resource in this competitive era. Banks too are dependent on this resource only. Human resources are valuable resources in banks because the bank’s profitability is fully based on the performance of the employee, and this performance is based on their satisfaction because if their satisfaction level is quite good then they will definitely give the positive responses to the work. Timely review of human resources practices is primary duty of the human resource department that the employees working
in their organization are satisfied or not or they require something new or more for maintaining their satisfaction level. So for the successfully running an organization it is important to maintain the employees working over there.

The bank needs to assimilate the human resource management strategies with the business strategies. It should emphasise on consistent team work and create commitment to improve the efficiency of its human capital. Banks have to understand that the investment in technology and other resources are repetitive, but not the human resource capital, it needs to be view as a precious resource for the achievement of distinctive advantage and efficiency. The long-term vision for India’s banking system is to transform itself from being a domestic one to the global level. To take up this industry to the heights of international excellence requires combination of new technologies, better processes of credit and risk appraisal, treasury management, product diversification, internal control, external regulations and human resources at the most. The changes in technology, the introduction of globalization, privatization and liberalization affect the banking sector. Now the demands for better services and quality is high among consumers and this demand has created a intense competition in the banks, and this competition requires the best employees working in the banks to handle such things. The best employees here can be explained in terms of satisfied and loyal one. Along this it is also required to adopt such strategies that create superiority on rivalry banks.

Business environment are facing many challenges in form of acquisition and optimization of human resource. The success of any organization is dependent on many factors but the one important which is required to maintain competitive advantage is only human resource. They bring many things such as innovation in products and services and produce the high quality products which are offered to their consumers. In banks the role of Human Resource Management Practices focuses on optimal utilization and


management of their human resource effectively in order to achieve organizational goals. Human Resource Management plans strategies and approaches to manage the people to achieve organization goals.

Management of people and management of risk are two challenges faced by bank. The human resource and risk is important for bank for successfully running. Risk management can be done by human only but for that it requires the efficient and skilled man power. Now people are more advanced, they decide that in which bank they have to work. They select banks of their own choice because banks have their own qualities and demand in market. So it’s a tough time for other banks to remain distinguish with other banks in terms of qualities. Banks have strategies to attract and retain skilled employees by creating their own niches and images in transparent situation with a high level of competition. Now it is a time of customer in service industry (banks) if the customer is not satisfied with services he will switch to some other banks. Banks should have create some core values to remain distinguish with other banks so that they can attract and retain best human resource along with customers. The efficient and effective manpower is in short supply. They become scarce both in quality and quantity. So anything which is scarce and short supply is highly demanded or we can say have high demand in market. So the necessary step should be taken to properly managed the human resource for the benefit of the society and the whole economy and for this proper functioning of human resource management process is needed. 5 The revolutionary change is required in human resource practices in banks to survive in this competitive world. For the success and persistent growth of banks, it is essential to generate a pool of committed employees by making aware of employees needs and wants and to determine that employees working are satisfied with the job. Their satisfaction would affect their performance and commitment, which would eventually influence the banks’ growth and profitability.

The firms involved in the banking business are faced with growing competition due to entry of new firms. In order to survive in the competitive market, the firms have to focus on the provision of enhanced quality banking services at cheaper prices. In such competitive environment, the retention of well trained and skilled workforce is the major issue of the banking sector in the country. Banking sector is playing a very vital and effective role in the development of economy. It is now an instrument for the economic development of any nation. The banking activities are undergoing rapid diversification worldwide. One of the major change in banking sector is rapid change and advancement in technology and Indian banks are also participating in these changes. In this competitive and changing world banks are required to concentrate on development of human resource. In banks or any other organization, productivity mainly depends on the skills and interest of employees. It’s time to understand the importance of human resource in this business world. Indian banks should focus on upgrading the skills and knowledge of their employees for the mutual benefit. This is an essential process for every organization in order to maintain its dignity and for optimum utilization of its human resource.

Banking sector is an industrial organization and dependent on the quality of human resource management practices for encouraging and motivating the human resource. A proper and effective human resource practices implementation would result in excellent organizational environment, competent and productive employees. The timely upgradation of these activities is also important to maintain their status in the competitive environment as time changes. In India managing a bank is unique and much challenging, as compared to any other organization. Banking activities are directly connected to the outside world. The banking activities are connected to social value systems and monetary considerations. It is evident that convolution of the task has increased tremendously, making the management of banks more and more difficult and challenging in times ahead than past. It’s a task for the banks to develop and maintain their human resource more effectively and efficiently so that they can cope-up with the increasing and

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changing demands in banking. It has become unavoidable for the banks to concentrate acutely on setting up systems for appropriate human resource development.

A proper and effective human resource development brings overall development of employees by enabling them to improve their working knowledge, skills and behaviour. It makes awareness among the employees about their roles in the organization and contributes to the process of integration of the employees with organization. The efficiency and effectiveness of any bank is fully dependent on the management system who works for the development of employees. Human resource management practices if implemented properly they can improve the human skills and its result can be seen on its productivity, its services rendered to customer.

Human resource management department should be well prepared in advance for the fast changing business environment and ready to adopt new things according to the need so that they can respond to the changes. Organization should be dynamic, growth oriented and fast changing to develop their human resource. Organization which is continuously fascinated for improving its services and productivity need first to develop their workforce in terms of their competencies and improved the way of doing things in some standard manner to bring improvements. Banks are revamping their procedures and methods of work for economic and technological reasons. Also job responsibilities are reviewed to go with automation and varying characteristics of new groups of recruits. In the era of speedily changing technology and mounting competition, banks should be conscious of the development of its human resource in order to reach standards of excellence through the development of human resource. An efficiently working bank is also called as sound bank only after accomplishing its objectives with support and performance of its human resource. If the employees are trained, satisfied and motivated towards their work, then the only things remains is the proper execution. Banking again a expectation for society, society expect from banks that they should help them by their facilities and services and all depends on the employees working in the bank.
Human resource development always focuses at human resource and its efforts aims to construct a strong environment of people with honesty, integrity and truthfulness. Such efforts try to culminate in enhancing the banks replenishment capabilities through competitiveness, innovativeness and creativity. The human resource management department should frame such policies in banks which act as an effective mechanism to encourage employees to show creativity to arrive at excellence and finally to deliver better customer services.

An organization consists of number of people who works for the achievement of the goals. Human resource plays very important role in achieving profitability, efficiency and all round effectiveness for the sake of organization. Every human possess different skills, talent, tactics and potential which leads to behavioural and psychological differences. These behavioural differences increase many folds when they interact in a group or organization. The behavioural difference leads to various management style, values, ethics, and opinion of every employee. Human resource needs to be groomed in such a way, which enables them to take risk, think out of box and handle various problems.  

7 It is implied that banks are moving in wrong direction when it comes to manage the human resource, which directly effects on the financial performance of the bank. Instead of focusing on how to carry out strategy through the performance of the employees in many cooperative banks, the main concern is to control on cost and the focus on the execution of HR function.

Indian cooperative banking movement has approved hundred years of its survival. At the same time, human resources management has been a neglected area in cooperative banks over a period of time and meager image of cooperative bank employees in the society affects their morale. All over the world the technology drive the banks to reduce the walk-in-customers to the bank branches with help of such innovation, creative technology


adapted by them such as ATM, net banking and mobile banking channels etc. Due to lack of knowledge it was found difficult by the customers in India to make use these technology based channels and they are more comfortable in traditional banking over the counter personally to ensure error-free and risk-free banking service. While stressed to provide better and efficient service to the customers on the counters of bank and the staff is also confronted with challenges with various regulatory norms to diminish risks in operations. This clearly establishes that employees of cooperative banks play a very essential role in running not only the ‘transaction’ of a customer but also future long-term relationship with them.

There are several reasons for the new approaches to the management of staff. The infrastructural problems in bank, over staffing, the increasing competitive strain in cooperative banking had led to greater consideration to controlling labor costs and increasing labor productivity. The nature of change had encouraged the prominence towards being a market-driven rather than an administratively driven organization and the importance of staff class was being emphasized. The essential elements of the human resource organization include the subsequent four broad decision areas viz., the acquisition, development, gratifying and upholding of human resources. No organization can survive without the human assets and the quality human resource is capable of properly exploiting the material resources to generate surplus for survival, expansion and diversification into new fields keeping in view the surroundings in which it operates. This is true in banking and marketing organizations, where physical assets is only a part of the total resources mobilized by the organization.

 Compared with other management functions, human resource management functions is important and different. In cooperative banks, the things cannot be managed by a set of predefined techniques because it is more susceptible, personalized, context-dependent. HR management is not just a support function but a tactical tool for competitive advantage. In fact, it is difficult to practice customer-centric strategic management without achieving employee satisfaction. Thus, employee satisfaction is a precondition to
customer satisfaction. Efficient organization depends on having the right structure of HR policies and practices in place to recruit, select, develop, appraise, compensate and place, promote or send away employees. Based on a vigilant analysis of the requirements of the business, cooperative banks must prioritize their choices of around workforce engagement. For triumphant HRM requires that the banks follow a sound management philosophy that compliments human dignity and diversity and are dedicated to the growth of employees, believe in the value of employee’s involvement and engage them in decision making and share the wealth equitably and fairly.

As bank is service sector and provides its services and facilities to its customer. There is direct relationship between employee and customer. Maintaining the relationship is very important for the bank to remain active. Customer comes to the banks with many expectations in order to develop and maintaining long lasting relationship with the customer the banker should treat them with a smile. The current and coming time is of customer and to meet out their expectation only the factor of survival for banks. Banking is mainly a labor intensive service sector, technology can help human in doing things faster and act as an equalizer but cannot be the substitution for making relationship with customer. So the role played by employees in service sector as compared to manufacturing sector requires proper management of employees, because in service sector it delivers its services across the counter to the ultimate customer. In this sense it is commonly accepted that employees create an important source of competitive advantage to the banks and these practices help to make best use of its employees. In the competitive business world the difference made by the committed, productive, creative and innovative employees holds the strong position in organization. The expenses made on human resource in form of human resource practices can be beneficiary for the banks in developing and maintaining the resource. The productivity and profitability of any

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bank is dependent on the workforce working there and working effectively for the success of the bank. So it is the duty of employer to judge that the employees are satisfied or not.

The employees of banks are now more conscious regarding their job profile. They are well aware with norms, rights and demands. There has been cut throat competition in the banking sector, which is an aftermath of both foreign and local investment. The influential institution have changed the gaming rules and adapted new modern techniques for the customers. Employees too are more interested in developing their skills which is required or expected from the job. The time has gone where management select the employees, but it’s a time of employees where they select jobs. They are not confined to one particular job; they are searching for better prospects, dignity from their job. Salary, compensation, other benefits, various facilities too matters for the employees while working in the bank.

11The business world is continuously changing and constantly presenting new challenges and opportunities for people. The globalization, privatization and liberalization too have make tremendous changed in the economy. The role played by bank in economy sometime faced internal competition among the commercial bank too. The perception of employees is also changing towards their job. The only advantage they have is human resource working in their bank. The motivation and satisfaction can help bank to get rid of this competition and in this fast growing economy.

Both the banks whether private or public bank, the aim is to reach the heights of success. Employees are now prepared with the latest technology. The working culture of doing things has also changed with latest technology in banks. The introduction of database management, internet banking and mobile banking comes in the race of competition. The improved in technology such database management has improved the level of employees

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and the burden of work load also now lesser. The employees feel free to provide services through e-channel. All this things saved time and that time can be utilized in development of employees.

Banks are in the race of competition and their success depends consistently on the responses to these challenges. For effective response to these challenges, management requires that bank should evolve internal capabilities for enhancing speed, quality, learning and building employee competencies. The human resource practices are the essential to response in such situation by generating and effectively developing these capabilities among employees.

Banks are the significant player in financial market and deals daily with the acceptance and deposit of money. The objective behind the bank is to performing better and improved the efficiency of doing business. The bank has experienced the rapid growth in the last 2 decades. The quality of banking sector has improved now. This is achieved through the skilled and experienced workforce. In the profession of banking, the employees perception has changed towards their job, they are now seeking for the bank where their participation and empowerment contributes for the progress of the bank. They want to work with the prestige bank where they feel proud and comfortable.

2.2 CONCLUSION

The success of any bank whether it is public sector bank or private sector bank largely depends upon the Human Resource Management Practices. Banks should always focuses on the issues related to human resource and managed practices in such a manner they help employees to develop their skills and potential to meet out the arising challenges. It is concluded that human resource is an asset for the bank and effective role is played by employees in performance of bank, so it very much necessary to managed them properly.