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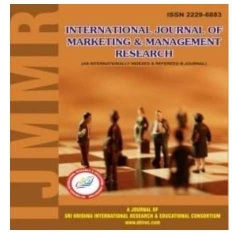

HUMAN RESOURCE MANAGEMENT STRATEGIES IN BANKING SECTOR

RAM PHOOL
"Ph.D.Scholar, NIMS University, Jaipur"
SBMN Institute of Management Studies and Research
Asthal Bohar Rohtak Haryana India

ABSTRACT

This paper "Human Resource Management Strategies in Banking Sector" unfolds the key dimensions of HRM with a focus on Indian Banks. This paper deals with the changing concepts of:

- *Human Resource Management*
- *Human Resource Development*
- *Promotion*
- *Productivity*
- *Training and Development*
- *Reward and Appraisal System*
- *Consolidation*
- *Outsourcing*
- *Performance and*
- *Motivation in Indian Banking System.*

It will sever as a valuable paper to understand the Human Resource Management Strategies / Practices along with Business Strategies and their impact on banks' performance to all concerned i.e. the policy makers, field functionaries and managers etc. who are entrusted with the task of managing people in banks.

This paper will focus that any organization can use, manage and control all the resources properly only with the help of effective Human Resource Management Strategies and Business Strategies.

INTRODUCTION

Banking is a strong and efficient financial system is critical to the attainment of the objectives of creating a market driven, productive and competitive economy and to support higher investment levels and accentuate growth. Banking by far is the most dominant segment of the financial system and plays a pivotal role in the development of a sound economy. A healthy banking system, besides providing necessary architecture for facilitating economic activities. All sorts of financial transactions are carried out by the banks. Orshingher (1967) observes, "They (banks) are authors and creators of expansion of economic activity and are not merely money lenders but also influential advisers and efficient associates and collaborate with industrialists in the elaboration and adoption of programmes of rationalization with the conquest of national markets and invasion of foreign market". The banks attract deposits, for the purpose of lending and investing programmes, from millions of people, governments and business organizations. They provide both flow of goods and services from producers to consumers. They are the instruments to implement our monetary policy. In fact, banking activities are considered so vital for the economic development of a country, that any changes in its processes are deemed to have repression on the country's growth. Banking system in India is currently changing its fibre and is undergoing sweeping and phenomenal changes.

1.1. ORIGIN OF BANKING

The word "bank" has its origin in the French word "Banque" or the Italian word "Banca", both of which mean 'an office for monetary transactions over the counter, benches or desks'. Thus, in olden times, bank means a bench or desk on which transactions took place. In many parts of the world some sort of monetary dealings were prevalent even when barter system was popular. Excavations are said to reveal the existence of deposit banks in Baby lonian/Assyrian civilization. The code of Babylonian's, the code of Hammurabi, the king of Babylon dealing with the morals, ethics of a good and honest banking also existed. Copper, silver and other metals with specified weight were used as a standard of valuation. The discovery of coin brought a revolution in the history of money and banking. Coinage helped banks to perform more and more functions which were not possible under the barter system. In ancient Greece and Rome, the practice of granting loan was widely prevalent. The books of Manu, also speaks of credit system, credit instruments, interest on loans and renewal of commercial papers.

In Rome, in the 4th century BC, the modern banking functions such as money changing, auctioning, discounting, advancing, and investment were undertaken., People were using cheque or draft on bank. During the ancient period, the banking business was mostly undertaken by private individuals. The middle ages saw the rise and spread of professional moneylenders doing business all over the world. But there were no general or uniform principles governing banking, lending and rates of interest. No code of ethics existed.

The Jewas exacted very high rate of interest and Henry III fixed 43% rate of interest for the moneylenders. The goldsmiths established a corporation of goldsmiths in England and were charged with the safe keeping of the royal mint and the treasure. Due to ill treatment by the Government of Charles II, the goldsmiths vanished and it became a turning point in the history of banking in England.

The Bank of Venics, established in 1157, is supposed to be the most ancient bank. Another bank 'Monte' was established in Florence in 1336 in Italy. A public bank was established in Barcelora in 1401. It used to exchange money, receive deposits and discount bills of exchange . The Bank of Genoa and the Bank of Amsterdam were established in 1457 and 1609 respectively. The bank of Amsterdam accepted all kinds of specie on deposits. Most of the European banks were formed on the model of this bank i.e. Bank of Amsterdam . The bank of England was established in 1694 in private sector.

1.2 BANKING - THE INDIAN CONTEXT

In India, practice of banking is older than the rest of the world. Acceptance of deposits and granting of loans were being performed by a section of community in Vedic period. The banker performed most of the functions of the modern banks during Smriti period4. Vaishyas practiced banking during Buddhist period and later on Brahmins and Kshatriyas also entered into the fray. In Kautilya's Arthshastra, maximum rates of interest were fixed. People who did this business were called as 'Sahukar' of Mahajan' or Sresthis'..

During early Muslim Rule in India, Indigenous banks performed banking functions. The bills of exchange, known as Hundie, were most commonly used.

The names of 'Jagat Seth' are very well known in India. According to U.P. Banking enquiry Committee "Jagat Seths of the 17th and 18th Centuries, having all the power and influence as the other private banking house in any other country and fulfilled many of the functions of central bank". Due to the advent of the East India company, the indigenous banking declined in the 18th century. The first joint stock bank – the Hindustan Bank – was established in 1770 by the Alexander and company at caclutta but it was liquidated in 1832. The Bengal Bank was established in 1785 and the General Bank of India in 1786 . Both the banks, however, failed by 1791. The first Presidency bank was established in Calcutta in 1806 in the name of Bank of Calcutta and was renamed as the Bank of Bengal in 1809. The other two Banks – the Bank of Bombay and the bank of Madras – were established in 1840 and 1843 respectively. Most of the government business was done by these banks. In 1920 these banks were amalgamated and a new bank – the Imperial Bank of India – was formed. In 1865, the Allahabad bank was established under European Management. The Commercial Bank, established in 1881, was the first purely Indian Bank. It was followed by the Punjab National Bank in 1894 and the people's Bank in 1901. In addition to this, a few banks like the Bank of India (in 1906), the Indian Bank (in 1907), the Bank of Baroda (in 1908). The Central Bank of India (in 1911), were also established by the Indians. The progress and growth (in terms of their number, capital reserves, deposits and case balances) of joint stock banks in India during the period 1906-0913 is depicted in Table 1.1.

TABLE - 1

GROWTH OF JOINT STOCK BANKS DURING 1906-13

(WITH CAPITAL AND RESERVES OVER RS.5 LAKHS)

(Amount in Lakhs)

Year	Number of Banks	Capital Reserves	Deposits	Cash Balances
1906	10	190	1150	149
1907	11	392	1400	194
1908	14	309	1626	245
1909	15	354	2049	279
1910	16	376	2566	280
1911	18	412	2599	362
1912	18	426	2726	400
1913	18	364	2259	400

Source : Jain L.C. The Monetary Problem of India, London, McMillan & Co. 1933

During the period 1913-24, 87 banks, with a capital of Rs. 178 lakhs, failed. Though, several reasons such as lack of knowledge and experience in banking, meager capital base and shortage of fauns during first world war were usually attributed to this colossal failure of commercial banks, yet the absence of a central bank to rescue them in times of trouble was universally recognized to the chief reason for their failure. This spearheaded the already existing demand for the establishment of a central bank in India, which, however, could not materialize before 1935 (when the Reserve Bank of India was established as a central bank of India). The Reserve Bank of India (inaugurated in April 1935 with a share capital of Rs. 5 crores, divided into shares of Rs. 100 each fully paid), came into existence under a separate legislation named as the Reserve bank of India Act, 1934. Along with the establishment of the central bank, the Act also initiated the process of streamlining the system of commercial banks in the country. Thus, Section 42(6) of the RBI Act, 1934 classified the entire banking system into two categories viz. Scheduled Commercial Banks and Non-Scheduled Commercial Banks. Scheduled Banks are those which are included in the second schedule to the RBI Act as per laid down conditions. The conditions for the establishment of a Scheduled Bank under the said Act were:

1. The bank must have a paid up capital and reserve of an aggregate value of not less than Rs. 5 lakhs.

2. It activities must not be detrimental to the interest of the depositors.

3. It must be a State Cooperative Bank or Company incorporated in India under Companies Act 1956 or an institution notified by the Central Government or a Corporation or a Company incorporated outside India.

As a result of standardization of the norms and conditions for the establishment of new banks and the establishment of the Reserve Bank of India as the bank of last resort, several new banks were floated during the period 1935 to 1947. In 1949, for the first time, the banking Regulation Act, 1949 was passed to control the activities of the commercial banks. Under the Act, RBI was given wide powers of control and supervision to strengthen the banking system and to reduce failure in future. In 1950, 11 banks went into voluntary liquidation and in 1951, 4 scheduled banks in Bengal were amalgamated with the United Bank of India. The Bharat Bank Ltd. was merged with the Punjab National Bank Ltd. between 1950-51. Further, due to the merger of weak banks in 1970-71, the number of banks declined from 430 to 73.

2. HR AND BUSINESS STRATEGIES

Strategy is a unified, comprehensive and integrated plan that relates the strategic advantages of the firm to the challenges of the environment. It is designed to ensure that the basic objective of the enterprise are achieved through proper execution by the organization.

Appropriate human resource strategies, policies and practices are all required to achieve organizational goals. This is because the attainment of corporate goals is dependent on the caliber and motivation of the employees. Thus it is important to position the right person on the right job and then evaluate his performance against the predetermined goals of the organization.

In this study, the human resource management and the business strategies of the some selected banks such as State Bank of India, Panjab National Bank,Canara Bank, ICICI Bank, HDFC Bank and Bank of Rajasthan are analysed (through a set of indicators developed for this purpose). This will form the basis of analyzing the match/mismatch between of human resources management and their business strategies and the impact of such a match/mismatch on their performance.

3. HR STRATEGY

The human resource strategy pursued by the six selected banks have been analysed with the help of a set of indicators. It is on the basis of this analysis that it will be determined what human resource strategy Accumulator, Facilitator, Utilizer – is adopted by a particular bank. This selection is divided into six sub – sections each dealing with a separate indicator applied to examine the human resource strategy pursued by the six chosen banks.

4. TOPOLOGIES OF HR AND BUSINESS STRATEGIES

Typology of HRM Strategy	Typology of Business Strategy
Accumulator	Defender
Facilitator	Analyzer
Utilizer	Prospector

5. MODE OF RECRUITMENT

The term recruitment applies to the process of attracting potential employees to the organization or company. It is a systematic means of finding and inducting available manpower to apply to the company or enterprise for employment. Since it involves the process of searching for process of searching for prospective employees, it is concerned with the range of sources of supply of labour or personnel and of recruitment practice and techniques. The recruiting activity in itself is selective or pre-selective, through choosing among the various sources of labour supply and by the decision as to which candidates applying for employment should be permitted to go through subsequent selection or screening procedures. Although the organization's very existence in the community may be sufficient to attract people to it and its reputation in the community may be sufficient to attract people to it and its reputation in the local labour market may influence its recruitment activities, reliance on informal and casual method of attracting potential employees or candidates is a narrow basis of selection and may lead to the risk of deterioration in available employee skills. Therefore, modern business and other organizations use highly sophisticated methods of recruitment to protect themselves against gaps and shortage of rank and file labour supplies and managerial/executive personnel. Evidence shows that often it is difficult to find competent manager/executive personnel at the right time and place. With expanding industrial and business activities top level and technical jobs have grown more plentiful.

Recruitment may be relatively simple or, on the other hand, it may be complex and expensive activity involving promotions from within the organization as well as advertising notifying vacancies, placing order to the employment exchange, campus recruitment etc. recruitment is thus an important step in business/industrial employment and ultimate success or failure of such employment depends in large measure upon the techniques. Method or practices by means of which the employee3. brought into the organization.

There are two main sources of recruitment : the Internal Labour Market and the External labour Market. Internal sources of recruitment of personnel refer to recruitment from within the organization so as to conserve the existing manpower through implementation of policies of promotions and transfers. The best employees may be often found from within the organization. It is, therefore, desirable that, in times of need, first to search for suitable manpower from within the organization. Vacancies filled through promotions and transfers will provide further entry positions for which recruitment from external sources may be done. Several benefits are associated with recruitment from the internal labour market such as:

1. It cultivates and enhances the morale of the employees.
2. Stability from continuity of employment.
3. Better evaluation of the employees.
4. Loyalty by creating a sense of job security and personnel advancement making them a contended employee.

However, certain drawbacks are also usually attributed to recruitment from the internal sources. Prominent among them are the following:

1. Danger of “inbreeding”- new blood would be discouraged.
2. Inadequate and limited source of supply of manpower.

New ideas or innovations or suggestions – so important for development in a competitive market – are sidelined.

However, despite these shortcomings of recruiting the personnel form the internal labour market, there is a general tendency among the employers in industrial/business/service organization to rely on this source of recruitment.

The external source of recruitment refers to supply of personnel or manpower from sources outside the organization. The prominent methods of recruitment from external labour market are advertising in newspapers, public and private employment agencies, recommendations of present employees etc.

In the case of banks, generally both the methods of recruitment i.e., internal and external labour markets are usually relied upon. Usually, for clerical and officer posts, external market is used through advertising etc. On the other hand, the managerial/executive positions are filled up through promotions and transfers i.e., for higher positions the internal labour market is usually relied upon.

In some of the banks, the practice of recruiting specialists such as technical employees, management trainees etc. directly from the reputed institutions through campus interviews has been started . Some banks are also utilizing the services of consultants and employment on contract basis. Some banks have also adopted the selection of personnel to match their immediate tasks. Such a practice, however, is more relied in the case of private banks.

An Accumulator HRM Strategy usually rely on internal labour market for procuring the manpower i.e., to develop the internal labour market. On the other hand, the main source of recruitment in the case of Utilizer HRM Strategy is the external labour market. In the case of Facilitator HRM Strategy both the internal and the external labour markets are relied upon i.e., hiring personnel form external labour market as well as development of internal labour market.

The position regarding the mode of recruitment as resorted to by the different banks under study has been analysed in Table – 2 below.

TABLE – 2

PROCUREMENT OF PERSONNEL

S.No.	Banks	Category	Internal Labour Market	External Labour Market	Both Internal & External Labour Markets
1.	SBI		X	X	√
2.	PNB		X	X	√
3.	CB	Public Sector banks	X	X	√
4.	ICICI		X	X	√
5.	HDFC	Private	X	X	√
6.	BR	Banks	X	X	√
Total Score			**0**	**0**	**06**

From this table, it is obvious that none of the public sector banks solely rely on either the internal or the external sources for procuring the personnel rather all the three public sector banks rely on both the internal and external sources for this purpose. In the similar way , all the three private banks are also found to be getting their personnel from both the internal and external sources rather than banking upon any one of the said two sources.

From this it becomes explicit that in terms of procurement of personnel all the selected public sector banks as well as private banks are following the Facilitator Strategy of human resource management.

6. TRAINING

The success and failure of any organization is dependent upon the quality and performance of its people. This is the demand of today's business also. Banking is a service industry. Thus the success and failure in its case more depends upon its human resources. The strategic human resource management it vital in the cutthroat competition. The old proverb – survival of fittest is a universal truth for all times and at all places. Having the right person at the right place at the right time is the basic object of successful human resource policy. Any orgasnisation is a successful as its people. An organization can grow if its people also grow and vice-versa. It is commonly accepted truth that in our country, we use only 10-20% of our potentiality. In India there is no dearth of talent but extremely poor utilization of human resources. To make people grow and realize their full productivity, a big push is needed to unleash their potential. This require bank's/any institute to frame a strategy.

Excellent performance does not just come a happen. In an organization, few people are naturally excellent, the organization must improve the majority who performs at less then optimum level to achieve competitive levels of productivity. Here comes the role of top management. With the help of improved productivity through better management practices is the key to maintaining one's competitive edge. This involves more than training. Build people to build the organization and to build the business is an accepted truth. Human Resource is the most and valuable assets of an organization which never deprecates. Investment in Human Resource or employee leads to success of the organization.

Keeping employees skill updated, enhance productivity, continuous upgradation of skills and knowledge of employee competition/challenge, job security, innovation, to face emerging challenge as a result of technology advancement, to face a cut throat competition and to have a competitive edge, the need of today is to place training and development at the heart of a business strategy so as to enable the organization to build its competence as a domestic and international player.

Training is thus to be used as the most effective tool in bringing the necessary change in the most vital factor of production; the Human Resources. The training system should be proactive and should have the foresight the changed environment in future so as to convey a positive massage to the staff that their future is safe if one interested to unlearn and re-learn. The training of Banking or computerization with proper guidance may turn the disguised talent into a precious asset of the bank.

The biggest achievement in the area of human resource management has been the development of strong training system in banks. In eighties, when new non-adoption of any specific typology of either the human resource management strategy or the business strategy leaves no scope for a fit between these two strategies.

7. PRODUCTIVITY (BUSINESS PER EMPLOYEE)

Productivity or Business is an important parameter for measuring the performance of a bank or an organization. To measure the productivity of a bank through Business per employee

For a bank, business means deposits plus advances as on 31st March of the specified year. To deduce business per employee ratio, the advances plus deposits as on 31st March of the specified year are divided by the number of bank's employees. The higher the business per employee ratio, the better the position of the bank. This ratio indicates the total business per employee. If the ratio is on increasing trend, then we conclusion that the banks business is increasing and the staff position is also realistic. This ratio measures the employees efficiency. Thus, the higher business per employee is an indication of better employees efficiency in a bank. To obtain this ratio, the total business of the bank is divided by the total number of employees of the bank i.e.

$$\text{Business Per Employee} = \frac{\text{Total Business of the Bank}}{\text{Total Number of Employees of the Bank}}$$

TABLE -3

BUSINESS PER EMPLOYEE(IN RS. LAKHS)

Bank's Name	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
SBI	299.23	357.00	456.00	556.00	636.00
PNB	330.92	407.41	504.52	654.92	807.95
CB	441.57	548.76	609.41	780.17	982.58
ICICI	905.00	1027.00	1008.00	1154.00	1029.00
HDFC	758.00	607.00	506.00	446.00	590.00
BR	291.40	400.54	518.85	532.93	569.77

Source: RBI Financial Report-2004-2009

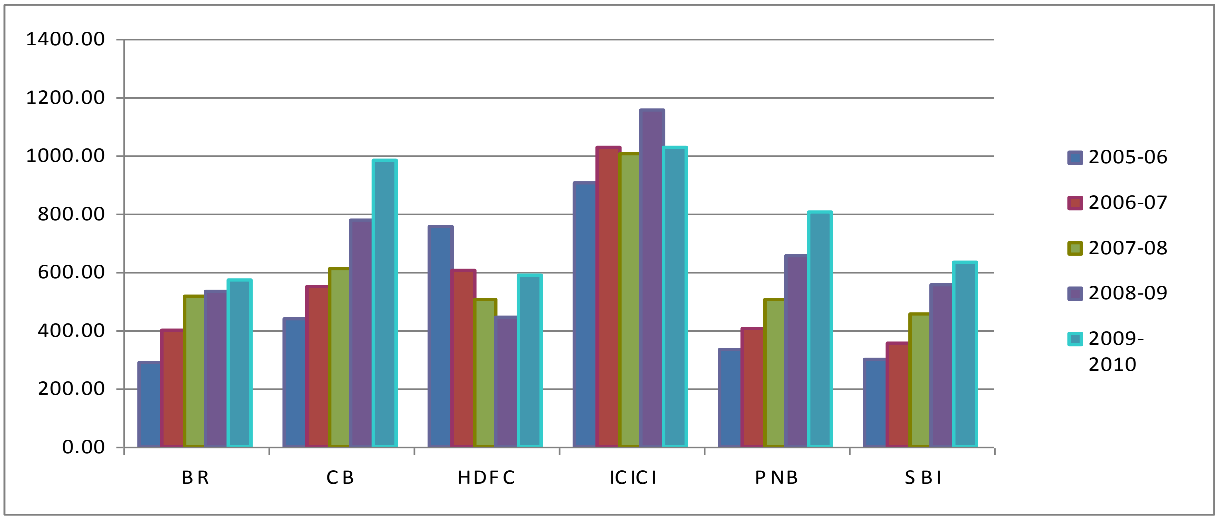

Table-3 reveals that all three public sector banks i.e. State Bank of India , Panjab National Bank and Canara Bank are the better performer on the basis of business per employee. Canara Bank is best than Panjab National Bank and State Bank of India in the field of Business per employee.

In private sector, the bank i.e. ICICI bank is doing better but in the year 2010 it is towards decreasing. The HDFC bank is not performing very well in the area of business per employee because in the year 2006-07, 2007-08 and 2008-09 is towards decreasing. Only the Bank of Rajasthan Ltd. in private sector bank is performing better in this field and is towards increasing in every year but seeing the performance of other banks , Business per employees in the Bank of Rajasthan (BR) is not in good condition.

8. SUMMARY AND CONCLUSION

The conclusion of this study is that those banks which have promoted the Human Resource Management Strategies and Business Strategies in the field of Promotion, Training , Reward System , Productivity , Job Security and Placement are performing better in the present time. The banks such as Panjab National Bank and HDFC Bank have also improved their performance. The bank such as Bank of Rajasthan Ltd has not adopted any HR and Business strategies properly so the performance of this bank in not in better condition. The result is that the impact of Business and HR strategies is much more on the bank's performance.

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