

Leadership crisis in PSBs—a reform agenda

Government needs to review board composition provided under banking companies law

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Selection of EDs and chairmen is undertaken as a routine exercise by the government with ad hoc criteria (changing with every exercise), a routine interview lasting for a few minutes and a highly opaque system of allotment of banks to the selected candidates. Photo; Pradeep Gaur/Mint

The recent unsavoury developments in the banking sector has brought to the fore an oft repeated (but least implemented) issue of governance and the credibility of the entire process of selection of chairmen and managing directors (CMDs) and executive directors (EDs) in public sector banks. Nayak committee (2014) and Khandelwal committee (2010) have brought out the significant and critical gaps in governance and human resource processes in general and issues of selection and grooming of top management in particular. Both the committees have suggested a plan of action as well.

It is said that crisis always triggers change and, therefore, it is now time to seriously initiate measures before the system comes under further scrutiny and impacts the credibility of the banking system. The government is showing its intent to undertake some reforms such as splitting the post of CMD and also a fixed tenure of five years for them. It would be simplistic to believe that these steps by themselves solve the problem.

The problem is much deeper and requires a comprehensive set of reform measures. Piecemeal and some symbolic steps will not cure the problem. We need to redefine the role of boards and the government in dealing with public sector banks (PSBs). Board reforms

are overdue and are unpostponable.

The government need to review the board composition provided under Section 9(3) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/80. We need to strengthen and empower bank boards in terms of competence, oversight and credibility, which is currently lacking. Boards are mainly CMD driven, which is a major risk. We need competent professionals from diverse fields on boards of the banks and not political activists or too many accountants. We need to ring-fence the system from political interference. Board leadership is the starting point for any reforms in banking. The Nayak committee has elaborately commented and diagnosed the issues, and they need to be considered with all seriousness.

Over a period of time, the process of selection of CMDs and EDs and nominations on the board have come for severe criticism. The selection to these top positions is patchy, ad hoc and nebulous. Selection of EDs and chairmen is undertaken as a routine exercise by the government with ad hoc criteria (changing with every exercise), a routine interview lasting for a few minutes and a highly opaque system of allotment of banks to the selected candidates. The system has perpetuated for too long and has failed to deliver the best in class leaders.

It is not that these issues have not been deliberated upon. In 2009, the government appointed the author of this article to chair a committee on human resources in public sector banks. The committee elaborately dealt with the issues practically of all sub-systems of HR and more particularly about succession planning and leadership developments, corporate governance. The committee observed that human resources, a new risk factor, is the most neglected piece by bank managements and suggested a methodology for reforms, including in the selection process for CMDs /EDs and also the larger issues of creating future banking leaders. The government accepted 55 of 110 recommendations and advised banks to implement them. Pitiably, many recommendations remain unimplemented by banks as the entire HR function in many banks is driven by routine and does not receive the attention of the board or the top management. Many important recommendations relating to governance and selection of CMDs/EDs have been put on hold for examination. One does not know the fate of these proposals even after four years and valuable time is lost in initiating reforms at critical levels such as top management.

Lately, press reports and right to information (RTI) enquiries have brought out some discomfiting and startling revelations about the interview ratings and have raised serious questions about the credibility of the entire selection process. The boards of individual banks seldom discuss the issues of succession planning within the banks. The entire exercise of filling vacancies is done through quick promotions without a credible process of talent identification, nurturance, and selection for top roles, both at the bank level and for top appointments.

Promotion from a pure functional role (as general manager, or GM) to top leadership roles like CMD, in some cases, happens in just one year. Such dramatic transitions can fall short on the maturity and experience required for CMD's role. Some incumbents may be overwhelmed by the power and responsibilities that go with such roles.

Does it speak well for the banking system of the country? Shall we continue with the incremental changes? Or do we look for radical shifts in our policies and methodologies of selection process?

I believe the present government will surely initiate some bold measures to restore the credibility of the system and ensure that best of class of leaders are selected for public sector banks and also reduce any political interference in the selection process.

Steps for restoring credibility of selection process:

- a)** Clearly set guidelines for job requirement of EDs and CMDs, and lay down minimum threshold level of experience in field and administrative positions and in critical functions such as credit and risk management.
- b)** Set up a national pool of DGMs/GMs, which should be assessed by a credible assessment and development centre for qualifying to appear before the interview board for GM/ED as the case may be.
- c)** Reconstitution of the interview board for selection of CMD/ED with the RBI governor heading the panel, an eminent economist/banker of repute and an eminent social scientist or management expert.

d) Every ED after selection to undergo a long duration role-based training in an institutional building especially designed by a reputed management institute

It is hoped that, together, these steps and comprehensive proposals provided in the two committees as mentioned above would significantly enhance the quality of leadership and governance at public sector banks.

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