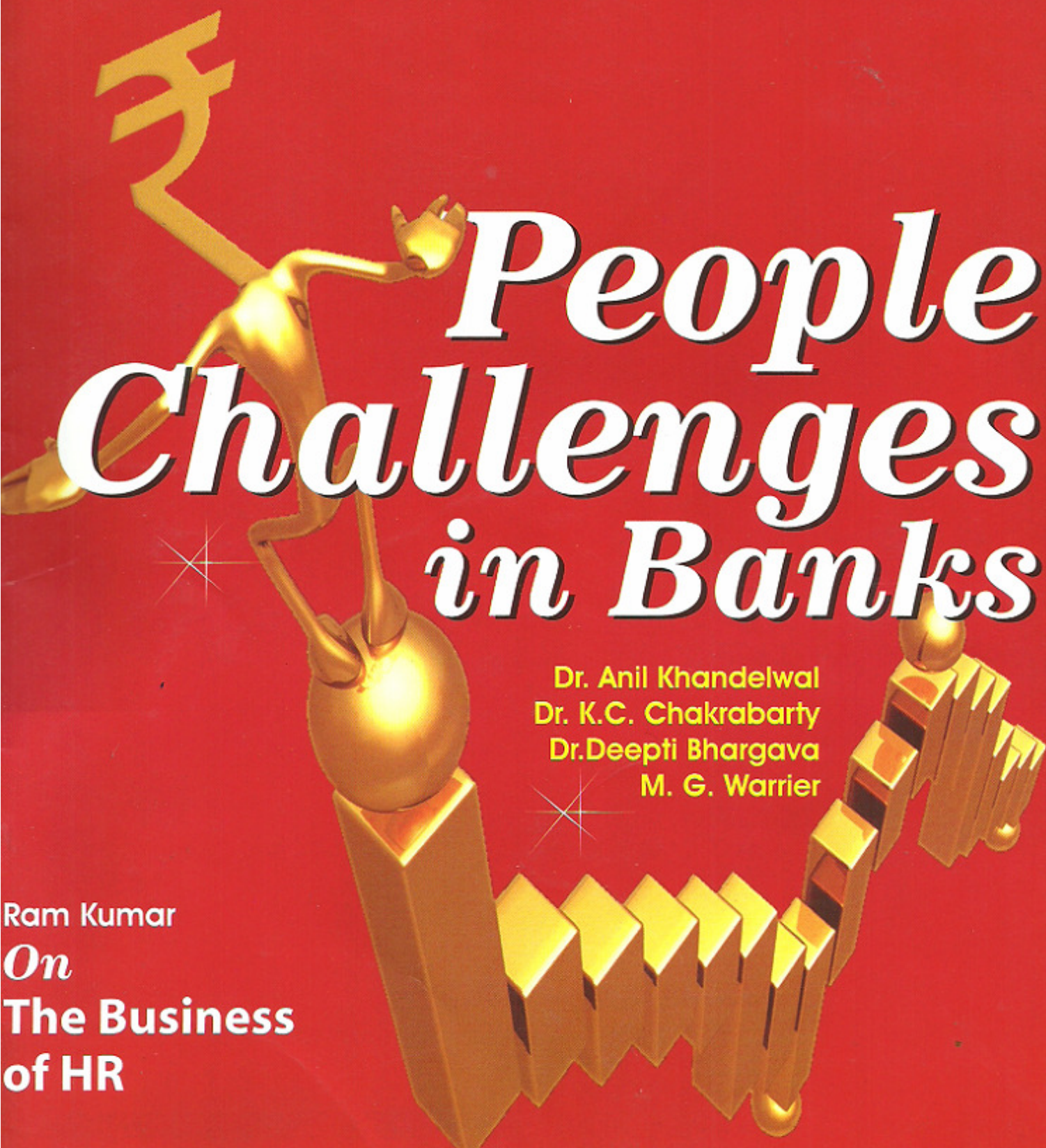


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Business Manager

Making HR People Complete



People Challenges in Banks

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Ram Kumar
On
The Business
of HR

People Challenges in Banks

There has been a debate for long on HR issues and reforms in banking sector specifically in PSBs. This decade with retiring lakhs of people in PSBs would be a retirement decade. Our banking system from HR point of view is standing at cross road. Khandelwal Committee report on HR issues and reforms in banks submitted in 2010 has only met with half of the recommendations accepted by Govt.

Is it not the best time to transform HR processes in banking sector by leaving the old baggage and taking bold measures?

BM cover feature' takes a look at issues, challenges and possible wayout...

Five decades old PSBs model need thorough re-look

Interview with
Dr. Anil Khandelwal

Who has also been conferred with Life Time Achievement Award by NHRDN During 16th National Conference at Hyderabad on 30th Nov.2012

Bank's should go for Bank level wage negotiations in terms of capacity to pay by each bank.

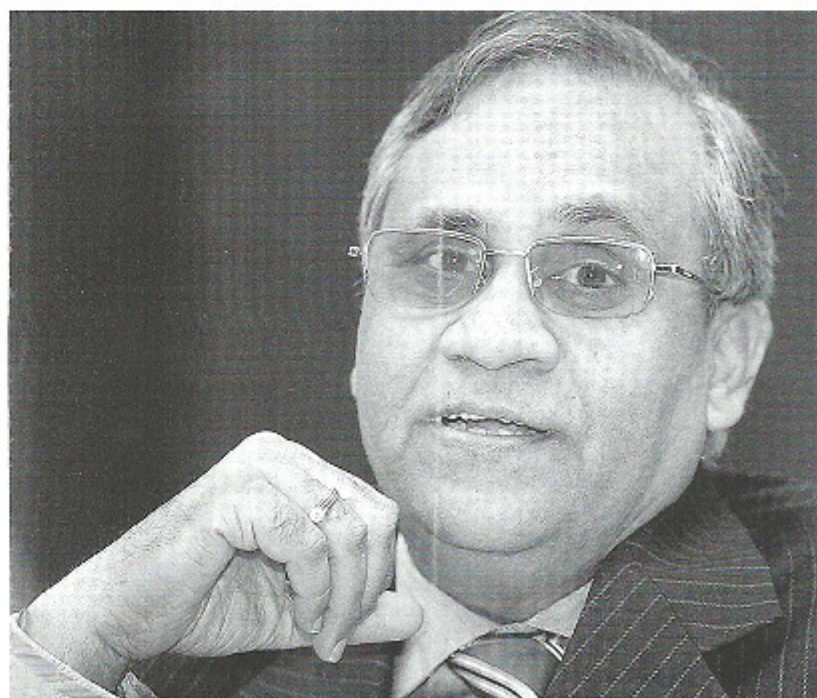
You have chaired the Khandelwal committee on HR in public sector banks. What are key challenges identified by your committee for HR issues of PSBs?

I have been privileged to head the committee on HR for PSBs appointed by Government of India. We have listed a whole series of reform measures as human resource transformation has become most critical for PSBs in the present HR dispensation needed a through overall and a 360 degree change.

Traditionally Public sector Banks have industry structure under which there are standardized wages and service conditions for all the PSBs. This model is almost 5 decade old and in the new environment which calls for enhanced productivity and motivation, such an arrangement needs thorough re-look. How can you pay the same wages to employees of high performing and non performing banks irrespective of profitability, capacity to pay and productivity? So a major challenge is to seek change in this model. Our committee has suggested that Bank's should go for Bank level wage negotiations in terms of capacity to pay by each bank. We have also suggested variable pay structure and various other measures that go at the very root of improving productivity and motivation level of staff.

The other challenge that PSBs face is the increasing talent crunch on account of massive retirements up to 2015. About 1.25000 staff would retire that include about 8000 executives, 52000 officers and about 50000 clerks by during the period 2010-2015.

The average age of senior and top management is quite high and in many banks there are critical gaps in the top management cadre. Even in large banks, sometimes the entire top management like CMDs and EDs and a majority of General Managers retire in the same year. There is obviously lack of succession planning.



HR function in PSBs is not professionalized except in one or two banks. Lack of professionalization has led to discontinuity and adhoc responses.

PSBs have to transform HR function from heavy accent on administration to more proactive developmental role to identify and unleash talent.

Do you think that HR function in Banks is able to deal with some of these challenges on proactive basis?

With some concern I should say that HR function in Banks itself calls for major transformation. Unlike most industries and even private sector banks, the HR function in PSBs is not professionalized except in one or two banks. Lack of professionalization has led to discontinuity and adhoc responses. The entire human resource centres around HR administration and developmental interventions are far and few. Lately some large PSBs are trying to build leadership bench strength with the help of consultants. My worry however is that in the absence of strong HR professionals inside the bank, such efforts may not sustain for want of adequate internalization and continuity of change effort. As the top management keep changing every 3 years so are the HR heads, as such many of such initiatives may not get ingrained into the system.

I am of the considered view that PSBs have to transform HR function from heavy accent on administration to more proactive developmental role to identify and unleash talent, improve methodologies for learning and growth as also improve overall processes for serious efforts in leadership development.

Have you articulated this vision in your report?

Yes very much. We have even categorically said in the report that HR is indeed a new risk - possibly the biggest risk in the system, considering the new challenges and opportunities of new age banking. We have suggested comprehensive reform measures so that India's PSBs can emerge as globally competitive financial entities leveraging their human capital.

What are the key areas of reforms that your committee has covered?

Our committee has made recommendations in various areas like Manpower planning and recruitment, training and skill development of staff, career planning, performance management, reward management, succession planning and leadership development, employee engagement and motivation, wages and service condition and welfare, corporate governance, industrial relation and professionalization of HR.

What is the response of the Government to Khandelwal recommendations?

I am happy to say that Government has already advised banks acceptance of about 55 recommendations out of 110 recommendations. I think this is a good beginning and it is for now for banks to take initiative.



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Why are trade unions protesting about Khandelwal committee?

Traditionally bank unions have ruled the roost for about 5 decades in employee affairs through industry level settlements. This has led to in some ways rigid rules and standardization of service conditions which is not conducive to individual motivation and productivity of the system. I have a feeling that some of the well performing banks if allowed to devise their own wage structure, the employees would stand to gain substantially. In fact industry level standardized structure has in some ways contributed to lack of initiatives in PSBs to organize HR department professionally. I suspect that trade union opposition is more to do with their perception about loss of their clout should the individual banks decide their own wages and service conditions. I am not very clear as to why trade unions should oppose Khandelwal committee when it has provided increased level of welfare, incentive as also upgrading the HR function to the level of a newly created position of ED - HRD.

There are rapid promotions to ED and Chairman's position these days without adequate maturation process and posting of CMD and ED from one Bank to another. How does it affect the Banks?

Well this is a serious issue. This has happened because in the last 5 years there have been too many retirements at the top and sometimes purely to fill in the vacancie the normal eligibility have been relaxed. Ideally, a long range succession planning could have prevented such a situation. Today there are banks where in the same year the CMD and EDs retire and the entire team comes from different banks. This creates problem of transition and adjustments. I could not agree more about the maturation process in different cadre before a person could be moved to the next cadre. PSBs are large institutions with lots of legacy issues and they require competent, matured and result oriented leaders andnot merely experienced bankers. Only matured leaders can undertake the process of transformation with a long term intent and facilitate the process of change.

What are your suggestions to Govt./PSBs for building a competitive edge through HR?

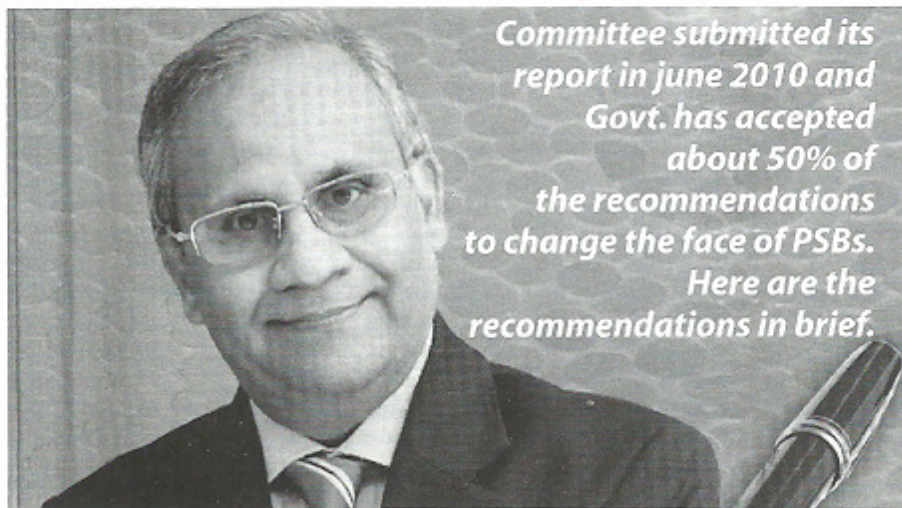
Khandelwal committee has comprehensively dealt with this issue and has elaborately commented on various initiatives that the Government and the individual banks can undertake. HR in PSBs has to move from periphery to the centre. First things first. PSBs have to induct professionally qualified HR functionaries at the senior level who can design and architect HR function and provide continuity of thought process and implement innovative policies to develop competitive advantage. This is just the basic. Further, we need to use technology to manage the massive HR administrative function and improve methodologies of learning and engaging people across the bank in the change process. This is challenging and calls for very systematic and committed strategy. **BM**

In fact industry level standardized structure has in some ways contributed to lack of initiatives in PSBs to organize HR department professionally.

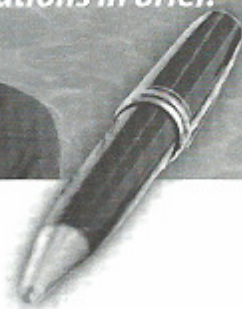
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Khandelwal's Committee recommendations on HR reforms in PSBs.

*Govt. of India
Constituted a
Committee under the
Chairmanship of
Dr. Anil Khandelwal,
Popularly known as
"Khandelwal
Committee" to
Suggest or various
HR issues and
reforms of PSBs.*



*Committee submitted its
report in June 2010 and
Govt. has accepted
about 50% of
the recommendations
to change the face of PSBs.
Here are the
recommendations in brief.*



Man Power Permuting :

- ◆ Banks to take steps to institutionalize manpower planning, with the help of outside expert advice, if required, and subject it to review every year by the proposed Steering Committee of the Board on HR.
- ✓ ◆ Each PSB to lay a roadmap for reaching officer-clerk ratio of 1:0.50 for metro and urban branches and 1:0.75 for rural and semi-urban branches in the next 3 years.
- ◆ Boards of the banks to monitor staff costs and endeavour to achieve staff cost ratio of 50% in the next 5 years.
- ✓ ◆ Banks to outsource more and more non-core activities in a time bound manner and its impact to be factored in MPP.
- ✓ ◆ Clerical and sub staff to be redesignated.
- ◆ The standard of recruitment including methodology and content of testing has to be raised.
- ◆ Testing of computer skills to be mandatory for both officer and clerical cadres.
- ◆ Diploma in Banking by IIBF to be a mandatory qualification for officer recruitment. Such diplomas by NIBM or any recognized universities may also be recognized by IBA.
- ✓ ◆ Recruitment of direct officers to be 50% of total officer vacancies.
- ✓ ◆ Minimum qualification for clerical recruitment to be graduation and for sub-staff, standard pass.
- ✓ ◆ Fresh recruitment of clerks to be restricted to rural and semi-urban branches. Further, rural / Semi-urban service for a minimum period of years should be made mandatory for the new clerks joining the PSBs.
- ✓ ◆ Banks to endeavour to incentivise mobility of clerical staff to rural areas through special house rent, fast track promotion, etc.
- ✓ ◆ Lateral recruitment on term appointment (say, 5 years) to be made largely for specialized positions.

Training and Skill Development of Staff :

- ✓ Training systems of banks to focus on creation of talent pool of officers in critical areas of training programmes to be introduced to build talent pool.
- ◆ Training colleges of individual banks to be upgraded as centres of excellence with mandate to carry out in-house research, provide learning support to the management and be responsible for continuing education efforts.
- ◆ E-learning and other alternate delivery channels for learning to be extensively used for training and learning.
- ◆ Linkage between training and operations to be improved by proper training need analysis and evaluation of effectiveness of training. Focus to be to understand world class practices and changing requirements of customers.
- ◆ Functional heads / business leaders to be accountable for training and development of cadre of officers in their area.
- ◆ Training of newly recruited officers to be strengthened and re-vitalized. Two years' training to be made mandatory for these officers to provide systematic exposure to all aspects of banking.
- ◆ Role related training to be made compulsory for all executives in Scale IV and above.
- ◆ All banks to have Governing Board on training / Advisory Committee on training (many banks already have).
- ◆ External and overseas training to be aligned to a clearly laid down talent management strategy.

Career Planning :

- ✓ PSBs to bring about rigour in promotion process in all cadre.
- ◆ Eligibility criteria in the matter of minimum length of service in a particular Scale to be suitably reduced for fast track promotions to talented employees.
- ◆ Promotions in executive cadre to be preceded by thorough testing of competencies and potential measurement through Assessment Centre for holding the position to which the employee is being promoted.
- ✓ HR to develop mechanisms for identifying star performers and to track their performance for fast track growth.
- ◆ Each PSB to come out with a HRD plan for development of women and SC/ ST employees.
- ◆ Sabbatical leave of 2 years to be allowed at request to women employees to meet their special problems during their career.

Performance Management :

- ◆ All categories of staff including workmen staff to be covered by PMS. PMS to be a credible,

transparent and interactive system. Online PMS to be introduced.

- ◆ All performance plans to include statement of key activities under each KPA / KRA and linkage to Branch/ Regional/ Functional/ Business Unit/ Organisational goals.
- ◆ PSBs to introduce 360° feedback as a leadership development, succession management and grooming tool for executives in Scale IV and above.

Reward Management :

- ✓ The incentive scheme should aim at performance differentiation and reward the pivotal employees.
- ◆ The scheme should also positively incentivize potential business growth. It should be linked to performance which presupposes that objective and measurable performance.
- ✓ Total amount of incentive to be paid by a PSB in a year not to exceed 2% of its average net profit earned over the previous two years.
- ◆ Incentive to be limited to 25% top performers who are covered under PMS.
- ◆ Existing incentive schemes to be dovetailed into the new incentive scheme.
- ◆ PSBs may consider offering Employee Stock Option Plan (ESOP), in the future. This is to be limited to 15% top performers in the executive cadre including CMDs and EDs.

SoI for CMDs / EDs : (Statement of Intent)

- ◆ Qualitative issues to be given 40% weightage for CMDs and 25% for EDs while finalizing SoI. HR reforms to form a major component of qualitative agenda.
- ◆ A minimum level of performance to be set below which no incentive is to be paid.
- ◆ The performance linked incentive should be admissible to CMDs / EDs of PSBs on the basis of scores obtained as per performance evaluation matrix to be developed by the Ministry of Finance.

Succession Planning & Leadership Development :

- ◆ PSB to introduce system of succession planning for key critical and leadership positions. Each critical position should be backed up by three potential successors in the reserve.
- ◆ The identified potential successors should be groomed through variety of mechanisms to prepare them for the identified positions.
- ◆ A comprehensive leadership development strategy, based on leadership competency model for each role, must be developed by each bank for executives in Scale IV and above.

- ◆ Leadership competency should be developed through a planned exposure to different jobs. Focus should be on developing high potential individuals.
- ◆ Potential identification should be done through Assessment Centre and 360° feedback to identify talent for various roles.
- ◆ A common pool of GMs to be created for the entire banking industry. Only identified potential candidates through Assessment Centre to become eligible for ED / CMD positions.
- ◆ Bankers' Leadership Development Institute to be set up for creating future leaders, research, bench marking and best practices.
- ◆ In order to promote meritocracy and high degree of professionalism, banks need to have best in class leadership at the top. The main criteria for selection has to be strategic thinking and turnaround ability.
- ◆ For proposed 'Navratna' banks or banks with business mix of over Rs. 300,000 crores, a ED (HRD) – to be appointed.
- ◆ For elevation from GM to ED, the candidate should have 2 years of experience in regular GMs cadre / grade.

Employee Engagement & Motivation :

- ◆ PSBs to introduce online resolution of grievances.
- ◆ Banks to install a credible system to encourage free flow of ideas and suggestions from their staff – technology tools like Intranet, interactive portals, on line quizzes, etc. to be used.

Professionalisation of HR:

- ◆ Large banks with business mix of over Rs.300,000 crores and staff strength of over 30,000, to be provided ED (HR) to drive HR agenda from the top.
- ◆ Every CMD should take HRD on his agenda.
- ◆ Banks to recruit HR professionals at both senior and junior levels to undertake HR activities. Lateral recruitment should be encouraged for getting top talent in HR. All HRD staff should be trained before they are posted to HR roles.
- ◆ All PSBs to automate HR administration through web-based system, for efficiency, cost reduction and transparency in HR management.
- ◆ Banks to introduce and carry out HR audit once in two years.
- ◆ An award to be instituted for best HR practices.

Wages, Service conditions & welfare :

- ◆ PSBs to have freedom to negotiate wages and service conditions to create a better fit between

compensation and performance; PSB Boards to decide on bank-specific wage and compensation structure, in relation to capacity to pay, profitability, productivity, etc. and strictly within the overall guidelines of the Government in this regard.

- ◆ Banks to consider variable pay as a major component of wages. In such an arrangement, banks to have the discretion to go in for Cost-to-Company (CTC) concept.
- ◆ The Committee recommends that ceiling for staff welfare amount may be revised having regard to the business size of the banks and the employee strength, within the existing cap of 3% of net profit of each bank:

Corporate Governance :

- ◆ Government to review the scheme of Board constitution including its composition and selection methodology and bring in legislative changes, if necessary.
- ◆ Government to consider separating Chairman's position from the position of Managing Director, in line with Corporate Governance voluntary guidelines 2009 issued by the Ministry of Corporate Affairs, Government of India.

'NAVRATNA' Status to Some PSBs

- ◆ Some large well performing banks to be considered for 'Navratna' status – smaller banks for 'Mini-Navratna' status and State Bank of India for 'Maharatna' status. Size, performance and quality during the previous three years could be the benchmark.

Creating risk culture :

- ◆ Accountability for non-performance to be dealt with through pre-mature retirement provisions.
- ◆ CVC may be approached to review its jurisdiction to cover General Manager and above only (one level below Board positions) under its purview.
- ◆ Executives in the substantive rank of General Manager to be appointed as CVOs in large banks.
- ◆ All PSBs to put in place a staff accountability policy for Non-Performing Assets.
- ◆ PSBs to fix accountability for delays in concluding disciplinary cases.

Industrial Relations :

- ◆ PSBs to revisit and review all internal settlements that affect mobility, flexible utilization of staff, productivity, performance and customer service.
- ◆ Bank managements to accord priority treatment to the issues of productivity and performance acceleration while dealing with IR issues. ■■