

Criticality of HR Reforms for Public Sector Banks in the New Era

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Reprinted from *Economic and Political Weekly*, Vol XL, No 12, March 19, 2005
Pagination as in Original

Criticality of HR Reforms for Public Sector Banks in the New Era

Public sector banks have successfully implemented many reform measures in the last decade. They are today facing intense competition from new generation private sector and foreign banks who have entered the market with sophisticated technology, highly competent people and a market savvy customer-centric banking approach. Though PSBs have slowly started implementing the new age banking technology to meet the challenges, the real differentiation can only be made by fundamental reforms in the area of human resources. The managerial autonomy package recently announced by the government provides sufficient leeway to PSBs to frame their own organisation-specific HR policies and systems and leverage people capabilities to reposition themselves at the marketplace. Such a reform agenda would need to get top-level attention for organisationwide impact.

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Post-financial sector reforms, initiated by the government after submission of Narasimham Committee Report I in the early 1990s followed by Report II in the late 1990s, the Indian banking sector has traversed a long way and vindicated itself in terms of its performance, productivity, profitability and customer-centricity. It has successfully met the challenges of the prudential norms under Basel I and has contained the growth of contaminated assets. In these endeavours, Indian banking sector is also among the few banking sectors in the developing countries to have considerably absorbed and used modern information technology. It has also admirably readjusted itself to the challenges of a competitive environment unleashed by the opening of private sector banks and foreign banks.

Growth of public sector banks (PSBs) vis-a-vis foreign and new generation private sector banks has also seen impressive on certain parameters;

- Increase in business per employee during 2001-04 was higher at 59 per cent as compared to 23 per cent and 38 per cent for foreign banks (FBs) and private sector banks (PBs) respectively.
- Increase in profit per employee during the same period for PSBs has been 589 per cent as compared to 66 per cent and 37 per cent for FBs and PBs respectively.
- Average operating cost to total assets for FBs as well as PBs increased from 3.08 to 3.69 and 2.18 to 2.30, whereas for PSBs it declined from 2.92 to 2.46.
- Average wage bill to total expenses for FBs and PBs increased significantly from 9.56 to 15.60 and 5.31 to 8.68, respectively, whereas for PSBs it almost remained unchanged, moving from 23.01 to 23.13.
- Similarly, the wage bill to total income for FBs and PBs increased from 6.86 to 10.09 and 4.22 to 6.16, respectively, whereas for PSBs, it declined from 20.48 to 16.81.

I Status of HR in PSBs

The reforms process embraced many components: financials, asset quality, prudential norms, technology, opening of private sector banks and foreign banks and human resources (HR). While

far-reaching reforms have been set in motion and largely implemented in areas like financials and prudential norms and to an extent, in the area of technology, reforms in the area of HR have been lagging behind and halting, to say the least. No doubt, some measures were initiated in the matter of grant of autonomy to public sector banks on the basis of certain defined criteria and schemes like VRS were implemented at the turn of the century. However, these were not enough to create the desired impact in the area of HR.

It is pertinent to mention here the widely acknowledged fact that even in the era of high technology, it is the quality and the skills in human capital that will give a competitive advantage to a business organisation. Successful organisations will be those which skilfully and imaginatively align and organically integrate their HR and technology policies, in order to get best value from both and leverage them for enhanced business performance. The world is shifting from an industrial to knowledge economy in which the value of intangible assets is increasing and value of tangible assets is decreasing. By an estimate of the Booker Study, the percentage of market value related of intangible and tangible assets was 38 per cent and 62 per cent, respectively, in 1982, which increased to 68 per cent and 32 per cent in 1992. Today, more particularly in the service sector, the sales turnover is directly proportional to the level of customer confidence in the company/organisation, which is further impacted by effective customer service and customer relationships. In order to have a cutting edge in this area, the right kind of technology is not sufficient – rather a proper organisational climate and the right people competencies become more critical.

The new private sector and foreign banks had aggressively entered the market with many advantages like younger and talented staff with newer skills and competencies, a market related compensation structure, new technology, high marketing orientation and newer methods for acquisition and retention of customers and a lean and mean organisation structure. Their penchant for innovations in products and services and their quality and speed of responsiveness to the customer and the market were attracting customers – largely taken away from PSBs. At the

centre of all such initiatives, these banks enjoyed the advantage of full freedom in regard to not only technology but also more importantly, human resources. These banks skilfully and smartly leveraged a right mix of technology and manpower, to acquire and gain competitive advantage from day one.

Till the advent of the new century, PSBs continued to remain at a disadvantage in the area of both technology and human resources. While significant measures were initiated and implemented in the absorption and use of technology for branch level operations, some at the instance of the government and others at the initiative of the banks, reforms in the realm of HR were still to come by.

In the absence of these reforms, PSBs were clearly at a disadvantage at the marketplace. Apart from the absence of a level playing field in the matter of age, quality, talent, skills, competencies of the staff, PSBs continued to bear the impact of the highly regulated and centralised HR system. They could not recruit and induct young talent in tune with the emerging requirements. Their training system continued to be nebulous and did not develop the right mix of skills and competencies. The promotions under the standardised regulations have resulted in several inconsistencies in various cadres. They could not also contain the flight of talent to the new banks on account of a skewed compensation structure. In the matter of deployment of staff, PSBs continued to be governed by industry and bank level settlements, resulting in high rigidities in their ability to deploy them as per need. Even in the area of performance appraisal of officers, PSBs have been following a common one-fit for all format, which does not take care of individual organisational needs. The net result was that the PSBs had to compete with the best in the market, with inadequate and inappropriate HR policies and systems. Equally important is the fact that PSBs continued to depend and rely on the government for advice and direction on every critical issue in the domain of HR. This, in turn, did not create a facilitative and proactive environment in PSBs for setting in motion improvements in HR policies and systems.

Traditionally, HR function in PSBs focused on establishment and administrative roles. With the passage of time, industrial relations (IR) had come to occupy a central place in the HR domain. Issues in HR were largely dictated and driven by the agenda of the unions, which were essentially in the nature of 'demands'. Bank managements often shied away from raising issues of substance relevant to HR reforms. It was more of buying peace than strategically leveraging IR for business and productivity improvements.

Very little higher order focus and attention was being paid to more critical issues like staff training and development relevant to the new era, management development and succession, leadership development, acquisition and honing of new skills and competencies, performance measurement and management and the like. Indeed, the very HR systems and sub-systems did not keep pace with the emerging requirements of the competitive marketplace, which was witnessing major innovations in banking products and services, in providing multiple delivery channels and in significantly improving service quality to the customer.

One other fallout was that HR was confined to being a departmental function and did not occupy a central place in the top management agenda. Apart from discussing routine items in the area of HR, bank boards did not consider it necessary to

revisit and realign the HR domain in tune with the rapidly changing times, possibly because of the perception that HR issues are governed by government regulations and they were left with little headroom in this area. Unlike many other progressive public sector organisations like oil companies, bank boards also did not have any domain specialist in the area of HR as a member. This in turn did not promote professionalisation of HR functions in line with the changing times and the changing market realities. In essence, PSBs did not have a professional spokesman and champion in the higher echelons for spearheading HR reforms.

Yet another critical challenge before PSBs was how to smartly leverage a right mix of technology and manpower, given the skewed age structure and skill profile of the staff. While on the one hand, PSBs were investing large sums in technology, they were seriously constrained in the absence of freedom and ability to right size and deploy the manpower at different operating units spread across the length and breadth of the country. This was so because the mobility of manpower was constrained by both industry and bank level settlements/understanding. Added to this was the large-scale prevalence of restrictive practices in different branches of the banks. These practices regimented the ability of the banks to deploy manpower to perform multiple functions as per need. Multiple designations and multiple allowances embodied in the industry level settlements further restricted the banks' ability to deploy and use manpower in tune with the fast changing requirements. Many of these provisions in the settlements thus became major irritants in their deployment scheme.

A keen observer of the PSBs will not fail to notice that HR issues and the need and compulsions for HR reforms hardly find a place even in conferences, seminars and meetings organised at apex level by bodies like the Indian Banks Association (IBA) etc. Some of the recent conferences covering important contemporary issues in banking like FICCI conference on banking held at Bangalore and BANCON at New Delhi did not cover issues in HR.

II

Narasimham Committee Recommendations on HR

The Committee on Financial Sector Reforms, popularly known as the Narasimham Committee constituted by the government to recommend fundamental reform measures in banking and financial sector, had provided strong arguments in its first report in 1991 for far-reaching reforms in the area of organisation and methods, systems improvement and issues related to human resources – along with reforms in the operational areas. The second Narasimham Committee report (1998) laid renewed emphasis and necessity on parallel reforms in HR. However, the recommendations of the Narasimham Committee remained largely unimplemented for several years, barring some recommendations like the abolition of bank service recruitment boards (BSRBs) and implementation of VRS, etc, until the announcement of the managerial autonomy package in February 2005.

III

Competitive Disadvantages of PSBs in HR

Today, PSBs together handle mammoth business volume. As of March 31, 2004, their total deposit was Rs 12, 26, 838 crore, total advances at Rs 6,25,678 crore, total income at Rs 1,37,677

crore and net profit at Rs 16,622 crore. It is worthwhile at this point to take a look at productivity and efficiency ratios of PSBs vis-à-vis private and foreign banks.

PSBs also have a bloated size and aging manpower. This is in stark contrast to the manpower profile of new age private and foreign banks. Composition of manpower (ratio of different categories of staff deployment to the total manpower) in public sector banks is officers (30.73 per cent), clerks (46.93 per cent) and sub-staff (22.34 per cent), whereas in foreign banks, it is 79 per cent, 15 per cent and 6 per cent respectively. The higher officer ratio in foreign and private banks matches with the requirements of modern day business. Business per employee for PSBs is Rs 2.47 crore whereas for private and foreign banks it stands at Rs 4.22 crore and Rs 8.77 crore, respectively. Given the large wage bill, administrative overheads and low efficiency levels, the profit generation per employee among public sector banks is one of the lowest in the industry at Rs 2.20 crore whereas for private banks and foreign banks, it stands at Rs 9.23 crore and Rs. 18.08 crore respectively.

Apart from the manpower profile, another factor that puts PSBs at a disadvantage is compartmentalisation of roles severely inhibiting flexible use of manpower. For example, there are more than 40 types of special allowances paid to award staff (clerical and subordinate cadre) for undertaking different types of duties. This adversely impacts the level of customer service.

One can infer from Tables 1-4 that the performance of PSBs vis-à-vis private and foreign banks leaves a great deal to be desired. On analysis of factors attributable to the significantly high efficiency ratios of these banks, it would become clear that urgent need for PSBs is to revisit and realign the entire spectrum of HR and technology policies besides ushering in marketing, sales and service culture across their organisations.

IV Emerging Landscape of Indian Banking

Challenges of Core Banking and Organisational Transformation

The emerging banking scenario is highly competitive, posing challenges in three critical quarters, namely, technological challenges, operational challenges, and challenges on the people front. In order to effectively meet these multiple challenges, PSBs need to take organisationwide transformation initiatives so that they acquire the desired competence to gain substantial financial strength and also the necessary size and skill to compete with the global banking fraternity.

Technological Challenges

Technology has become a strategic and integral part of future banking. Future banking shall be fully technology driven enabling customer service through multiple delivery channels such as ATMs, the internet, mobile phones, etc. All back office functions, currently stationed partly or wholly at branches, shall shift to centralised processing centres with only sales and service remaining as the key tasks to be performed at the front office. A customer of the branch will become the customer of the bank. All back-office activities at a branch, functioning on a core banking platform (CBS) would be delivered by technology. There will be a reversal in the direction of data flow in the CBS environment

with the data captured from branches converted into meaningful information at Regional Service Centres/Data Processing Centre, then transmitted upwards to branches and offices. The responsibility for making best use of the MIS, for strategic initiatives, will clearly lie with the corporate office.

Further, there would be high level of technology integration in payment and settlement systems coordinated by RBI. Cheque truncation, Real Time Gross Settlement (RTGS), etc, have already been made operational and these would have large implications on the overall response time and service delivery. Centralised Funds Management System (CFMS), Structured Financial Messaging Solution (SFMS), interconnection of clearing houses through INFINET, etc, are significant moves in

Table 1: Staff Strength in Public Sector Banks

	March 31, 2001	March 31, 2002	March 31, 2003	March 31, 2004
Total nos of employees	797891	757048	757537	752627
Officers	217041	209288	219136	231316
Clerks	400176	373800	388642	353254
Sub-staff	180674	173960	189759	168057
Total workmen staff	580850	574760	538401	521311
Ratio of officers to clerks	1:1.8	1:1.8	1:1.7	1:1.5
Ratio of clerks to sub-staff	1:0.45	1:0.47	1:0.48	1:0.48
Ratio of officers to workmen staff	1:2.58	1:2.62	1:2.46	1:2.56

Table 2: Productivity Measures – Ratio of Staff Deployment

	Avg
Officer /total staff	
Public sector banks	0.21
Foreign banks	0.92
Clerks/total staff	
Public sector banks	0.48
Foreign banks	0.15
Sub-staff/total staff	
Public sector banks	0.21
Foreign banks	0.06

Table 3: Productivity Measures – Business and Profit Per Employee

	Business Per Employee (March 31, 2004) (Rs lacs)	Profit Per Employee (March 31, 2004) (Rs lacs)
Nationalised banks (19)	255.57	.78
State Bank of India	210.56	1.77
SBI associates (7)	240.17	2.63
SBI group (SBI incl associates)	232.80	2.00
All public sector banks	247.08	2.20
Private sector banks (21)	285.88	13.20
New private sector banks (9)	740.10	-0.02
All private sector banks (30)	422.14	9.23
Foreign banks (33)	877.91	18.08
Industry standard (all 90 scheduled commercial banks)	286.76	9.84

Table 4: Productivity Measures – Establishment Expenses (Rs Crs)

	Establishment Expenses			Establishment Exp as Per Cent of Total Expenses		
	2001-2002	2002-2003	2003-2004	2001-2002	2002-2003	2003-2004
Public sector banks	19076.48	20475.94	22421.00	17.51	17.63	18.52
Private banks	1599.29	2126.65	2574.38	10.28	7.36	8.68
Foreign banks	905.69	1033.70	1199.67	8.77	10.16	11.14

All data source: IBA Bulletin, January 2005.

technology and they reaffirm the symbiotic relationship between IT and banking.

Operational Challenges

Future banking business would be based on prudence and would be organised more on commercial lines with a focus on income and profit centres and still greater focus on customer needs and cash flows with a customer-centric approach and Strategic Business Units (SBUs) becoming imperatives. Issues such as product and customer profitability would dominate the working life of bankers. Qualitative issues like corporate governance, ethical value systems and practices, shareholder value, economic value added (EVA), return to society as also brand management, niche creation, building of reputation for soundness, strength and, more importantly, for outstandingly superior services will dominate the agenda of bank managements. Competition and consolidation will compel the banks to realise that today and tomorrow's customer cannot be best served with yesterday's structures, methods and technologies.

Apart from these, global best practices in the area of corporate governance, risk management (BASEL II standards), etc, are being benchmarked. Market discipline by adoption of transparency and disclosure of critical information describing the risk profile, capital structure and capital adequacy are assuming increasing importance in the emerging environment.

People Challenges

These technological and operational challenges would inevitably have implications for the organisational structure and the way people function in different roles. The current highly inward looking departmentation and segmentation at the branch level would have to yield to a customer-focused organisation structure. The online-real time availability of information about operational issues and more importantly about the customer would facilitate speedier responsiveness and decision-making. New skills required for business diversification into emerging areas such as derivatives, securitisation, etc, and efficient management of existing businesses also pose challenges on the people front. PSBs would have to quickly train and upgrade the skill levels of their staff, especially those in the front line. Simultaneously, they need to induct ready-to-function people from the open market to supplement the existing pool of manpower. Given the extent and diversity of people challenges, there is an emergent requirement of speed-leaders who can provide direction to people in the new age banking environment. PSBs need to create and develop a pool of leaders, through massive leadership development programmes, by providing role challenges and through succession plans. The requirement for the day is for leaders who can think strategically and can provide direction in complex time for organisational rebuilding and repositioning.

The issue of managing a large size of manpower (Table 1) is another bigger challenge on the people front and its magnitude increases in the context of the emerging merger and acquisition (M&A) scenario. Given the aging manpower pool, the enormity of the task is further compounded and PSBs will have to find ingenious ways to address these issues.

People related issues along with other technology and business issues create a still larger agenda for change – an agenda for

organisational transformation. Such an agenda can be carried forward only through people motivation and right HR interventions. Coping with people challenges is a long drawn process and would definitely not be an easy task. Further, the issues would be organisation specific and there cannot be straightforward and standardised solutions. Therefore, the key to success for every bank lies in the ingenuity of the methodology it adopts, the competence of people it deploys for implementing the action plan and the ability of leaders who pilot the transformation programme.

V Roadmap for HR Reforms

The emerging landscape of competitive banking calls for organisationwide HR reforms in PSBs. Without being burdened by the legacies of the past, PSBs have to now make HR the central theme of their organisational transformation exercise, which alone can bring differentiation and competitive edge in the race for technology-enabled banking.

The centrality of HR in such phases of organisational change is a proven fact. Many studies also highlight the inevitability of strategic alignment of HR with business, and, equally, the criticality of HR in influencing the overall business. A study of financial analysis and portfolio managers cited by Ulrich D and others in "HR Scorecard: Linking People, Strategy and Performance" (Harvard Business School) indicates that 35 per cent of investment decisions are determined by the non-financial information such as: (i) Execution of corporate strategy, (ii) Management Credibility, (iii) Quality of corporate strategy, (iv) Innovation, (v) Ability to attract and retain talented people, (vi) Market share, (vii) Management expertise, (viii) Alignment of compensation with shareholders' interests, (ix) Research Leadership, and (x) Quality of major business processes.

The recent autonomy measures mostly based on the Narasimham Committee II recommendations (Table 5), announced by the government set a new road map for PSBs, albeit in a limited

Table 5: Salient Features of the Managerial Autonomy Package for PSBs Announced by the Government

- Autonomy now given to PSB banks to operate in new business areas and undertake business rationalisation, i.e. opening of new vistas in business, closing of unviable business units, setting shops overseas in sync with bank's overall business strategy. This is indeed a market centric step and would certainly go a long way in bringing greater organisational maturity to banks in handling issues of business management and corporate governance. It would also help them reposition their organisations in different market niches according to their core competencies.
- Now banks can formulate their own HR policies in recruitment, staffing pattern, mobility, promotion, discipline rules etc, specific to their organisational needs. PSU banks can thus leverage HR for business growth and design innovative policies for people development.
- Strong banks have further been given autonomy in deciding the number of general managers as per their organisational requirements. This is a right step for scientific design of the 'span of control' and would enable PSU banks to create a right mix in the top management team.
- Strong PSU banks can also offer differential pay packages, within the overall grades as decided under the wage settlement at industry level, to genuine high performers. It would instill a culture of performance-linked pay and would be a strong motivation for high achievers.
- Removal of the cap on staff welfare spends made by banks is yet another avenue which banks can explore in designing the right mix of the overall employee benefits package which can have a tremendous impact on employee motivation and retention.

manner. Given the enormity of issues discussed above, a number of initiatives are required at the individual bank level. Some such measures are given below. These measures will certainly help PSBs be more autonomous in designing their HR policies.

(1) Role of Board and CEO

Given the criticality of HR issues in the success of business strategy, they need to be properly debated at the board level. Boards of the PSBs now need to spend quality time on formulation and deliberation of HR strategy, involving leadership development, succession planning for critical levels such as GMs/DGMs/business heads, territorial heads, etc, performance standards, redesign of organisational structure, compensation and rewards management, and other initiatives needed to create a proper organisational climate. Constitution of a board level sub-committee for monitoring and facilitation may further provide the desired thrust.

PSBs should now design and put in place a written policy and a blueprint for HR reforms. This would provide direction and focus in undertaking various interventions in an integrated manner. Such a policy document should necessarily get the board approval. The CEOs' main task will be to ensure capability building and use it as a differentiator for gaining competitive strength to his/her organisation. CEOs would also have to take ownership of HR, which would then ensure involvement of top echelons of the management in employee development initiatives.

At a time when most banks are undergoing technology-driven transformation and M&As appear inevitable, the CEOs would have to spearhead the transformation journey, champion HR functions to reduce peoples' anxieties and simultaneously seek higher levels of productivity and performance.

(2) Significant Improvements in Employee Productivity

As evident from the tables provided earlier, there is a need to raise the productivity level of PSBs' employees. Improvement in productivity standards could be brought about by massive skill upgradation, creating digital competencies to handle operational challenges of core banking, rationalisation of manpower mix at branches, role re-definition, etc. Further, banks would have to find ways to tackle the manpower size, post-core banking implementation. The committee of financial sector reforms has also strongly advocated the need for addressing issues of excessive manpower by way of redeployment into new business areas after suitable skill upgradation. However, caution would have to be taken in designing such schemes on a selective basis, as it should not disturb the already skewed manpower profile. The manpower deployment pattern would also have to be re-examined beyond the constraints of settlements. The mobility of staff with the objective of increasing his/her job horizon is yet another alternative, which PSBs need to explore for increasing knowledge about customer needs and for improving their service efficiency level. PSBs also need to recruit young, competent and business savvy officers and front line staff who could provide effective sales and customer service. The current skewed profile of 70 per cent of officers and 60 per cent of staff in the 45 years + bracket must be altered in favour of younger staff. Fast promotion of young but competent employees

provides yet another opportunity for PSBs to ingeniously improve productivity levels. Through interventions like role redefinition of front line staff and also of officers, several job enlargement and job enrichment initiatives could be taken which would go a long way in enhancing service quality and productivity standards.

(3) Institutionalisation and Implementation of Performance Measurement and Management System

Though the system of employee appraisal has been in vogue in banks, it has not helped in developing an organisationwide performance culture in PSBs. The system often fails to differentiate performers from non-performers, average performers from high performers. Reforming the performance appraisal system by making it more objective and linked to corporate business objectives is the need of the hour. Key performance indicators (KPIs) need to be scientifically assessed and objectively linked with organisational goals so that the performance of employees can be assessed on critical parameters. There is a need to bring all levels of employees within the purview of performance measurement as 70 per cent of staff in PSBs are outside the purview of a performance review. Incentive and reward systems based on individual and team achievement need to be introduced. The executive appraisal system should also be revisited and mechanisms like a 360-degree feedback system need to be introduced for an overall culture change in the PSBs.

PSBs also need to institutionalise new performance measurement systems like a balance score card, activity based costing etc, which could provide real linkage between key performance variables and individual efforts so that a realistic, organised and predictable pattern is available for performance analysis and review.

(4) Development of Leaders for Critical Roles

This is a high priority area considering the fact that no organised leadership development system exists in PSBs. Banks have to quickly create and nurture a supply system for leaders. Banking operation requires leadership at three critical levels, i.e. strategic leaders (corporate level), operational leaders (regional and zonal level) and tactical leaders (branch managers). There must be a proper system of identification of employees having strong leadership potential to lead people in teams at these levels and can deliver as per expectations. These people need to be groomed through diverse role exposures, customised training and development inputs and also through planned career progression systems.

The industry is passing through a transformational phase where many challenges have to be addressed. It also requires at this point of time a high level of dynamism in top echelons of management who can spearhead reform measures. Unfortunately, there is a huge demand-supply gap at this level. PSBs perhaps need to focus on ingenious method to create a pool of leaders who have strong and wide vision, are quick yet effective thinkers and sound decision-makers, and have strong relationship skills. Since this is an arduous journey, PSBs need to institutionalise the process of leadership grooming as a continuous organisational process. In this exercise, PSBs may need to forge alliances with accomplished management and

leadership development institutes in formulating a strategy and an action plan.

(5) Compensation, Motivation and Reward Mechanism

PSBs need to evolve such compensation standards, which can provide a linkage between risk and reward, performance and payment. Though, the current system of industry level wage settlement provides lesser leeway, slowly and surely the compensation system would have to be repositioned to take care of specific organisational needs. Even the need for graduating from the industry level wage settlements to individual bank level settlement in the matter of compensation and reward has been stressed strongly in the Narasimham Committee Reports I and II. The current flat pay structures across all the PSBs only provide disincentive for high performance. Under the recent autonomy measures, banks can now provide differential pay packages to recognise special skills and also high performance. This would definitely result in greater motivation for high achievers and inducements for those who are not performing but need to perform. Perhaps the time has come to graduate to variable pay linked to individual performance, as a component in the total package.

Banks would have to find ingenious ways to reposition the overall compensation and reward system from the currently 'hygiene' level to the level of 'motivators'. PSBs hitherto have not yet explored the potential of providing rewards, based on individual performance. With the retail sector booming, the time has come to cash in on it by providing achievement-linked bonuses on the lines of pharmaceutical and FMCG companies.

(6) Development of Competency Based Strategic HR Systems

The time has come for PSBs to shed their administrative and IR orientation and strategically align the HR systems and processes with business objectives. The HR organisation structure must focus on the critical requirements of banks such as how effective and need-based training can be imparted to different business divisions, how recruitment and promotion policies can answer specific manpower needs, how compensation and reward systems can be designed to attract and retain the best talents from the market, how talent within the organisation can be identified and nurtured for future requirements, how front line staff can be trained in providing effective customer service.

In order to provide satisfactory answers to the above questions, systems and policies would require re-design with 'competency' as the sole justification or criterion. Further, various sub-functions which clearly and structurally do not find a proper place in the current set of HR functions in banks, like succession planning, organisation development, talent management, career planning and development, etc, would have to be taken up as identified streams of HR activities which could deliver value to the organisation.

The strategic alignment of HR to the business also necessitates induction of professionals competent enough to handle the challenges and able to deliver. PSBs today have a shortage of such people in-house, and they would have to induct people at lateral level not only in the HRD area but also in other areas where skill shortages exist like IT architecture, networking and security, marketing and e-business, risk management, strategic planning, economic analysis, etc. There is also a need for

benchmarking various organisational systems including HR with the world-class processes and systems so that the international quality standards in service delivery permeate Indian banks.

(7) Implementation of Human Resources Management System (HRMS)

It is necessary for large and highly dispersed organisations like PSBs that they have in-depth knowledge about its people, their abilities, expectations, career profile, etc, so that decisions pertaining to HR can be effectively taken. It is equally important for PSBs to reduce administrative aberrations, owing to the geographical spread and decentralised nature of HR functioning. There is also a need for streamlining their HR operations and reduce costs so that the productivity of HR can be increased. Organisationwide HRMS, which can integrate various sub-systems of HR and provide a 360-degree view of people and functions, could provide the much-desired answer. Web-enabled enterprisewide systems are available, which the PSBs can make use of. This would drastically reduce/eliminate the deviations in HR processes and decisions; reduce operative costs and response time for HR deliverables and would also enable banks to use HR information as a resource base for decision-making. Such a system would also enable HR professionals to focus on real issues of people development instead of being engrossed in routine and compliance-oriented functions. An HRMS platform would also enable the bank to establish a work flow based processing system and provide employee self-service functionalities which would then lead to increased employee involvement and motivation. The ultimate benefit of having HRMS is transparency in HR governance and cost-effective human resource management, which adds value to the organisation.

(8) Knowledge Management Initiatives for Learning and Growth

The 21st century is characterised as that of the 'knowledge economy' and 'Experience Economy' where increasingly the contribution of the service sector to the GDP of nations including India, is rising. It is evident that a lot of attention will have to be paid to the neglected area of knowledge enrichment, and development of intellectual capital for enhancing the overall value of human capital. This is all the more relevant in the case of our country whose competitive strengths include its rich human capital.

The banking sector being a constituent of the service sector would continue to rely heavily upon human capital as a differentiator for providing a competitive advantage. For PSBs to be able to achieve high standards in product and service delivery at a competitive price, innovation in work and management practices would be a must. This can be brought about only through continuous knowledge enrichment and process improvements possible with knowledge management.

Banks should focus on the creation of an intellectual resource base within the organisation by providing for sabbaticals, sponsorship for management education and PhDs in critical areas. Banks would have to make substantial investment in terms of cost and time. PSBs also need to develop a culture of knowledge sharing within the organisation through measures like e-learning and

distance-learning mechanisms, etc. The existing knowledge barriers in the form of knowledge islands within the organisation need to be erased to enable free flow and exchange of information for common benefit. A clamour for knowledge and information must be seen within organisations. The KM platform, widely prevalent in software organisations, is perhaps an apt example of how intellectual worth can be enhanced through better innovations, and greater knowledge enrichment. The PSBs could emulate this practice.

(9) Skill Development, Attitudinal Re-orientation and Managing Diversities

Though skill development is a requirement at all levels, it becomes far more critical given the fact that frontline staff in PSBs are unskilled and have developed a narrow perspective of their role and the customers. Compartmentalised working and limited mobility must be addressed through composite work processes organised in customer groups and by providing geographical relocation. Given the sizeable presence of PSBs throughout the country and the large workforce employed in branches, there is a need to prepare manpower deployment and utilisation plans in such a way that employees are provided cross-functional and cross-cultural exposure to develop their sensitivity and ability to cope with issues and resolve them. Also, comprehensive training on sales and service skills, communication, attitude and behavioural flexibilities is a must. PSBs need to look at the way sales are handled by new age nimble players in the market and the way customer queries are resolved at customer call centre.

Apart from the front-line staff, skill gaps too exist at middle and higher-level employees. Suitable skill enhancement programmes would have to be initiated in tune with the organisational requirements. In this area, banks may look for association with professional institutions. Primarily the gaps are in handling technology and work flow systems, analytical abilities, selling skills, risk assessment, planning and coordination, customer and market responsiveness, etc.

PSBs in course of time have grown in rural, urban and metro areas having a different culture and ethos. Within the organisation, there exist wide people diversities. Issue of diversity management and creating a unified change spirit is yet another agenda to be undertaken by the bank and HR professionals would have to play a major role in it. Managing a large number of women employees, SC and ST employees, slow pacers, non-performers and high performers are some of the complex tasks ahead of PSBs. Integrating and balancing them without major upheavals and creating a motivational climate within the organisation is really challenging. Definite strategies need to be adopted. There is always an 'A Team' and 'B-Team' within organisations. Identification of team players and channelising their strengths and addressing the weaknesses should be an area of attention. Suitable motivation and reward mechanisms need to be worked out. Talent management, career planning and career development initiatives could provide definite answers to this objective.

(10) Measures of Organisational Renewal

Organisational renewal measures like HR audit, organisational health survey, and employee satisfaction survey should be undertaken to remove systemic deviations and enhance

organisational maturity. Action research needs to be initiated for finding solutions to operational issues and for continuous improvements in organisational systems and practices. Innovative employee involvements programmes need to be undertaken for creating organisationwide impact and change. In the absence of these powerful systems/instruments, an aberration in HR operational matters exists which has resulted in high cost and low efficiency level.

PSBs must also focus on enrichment of the organisational culture, a long and continuous process. There is a strong need to understand aspirations of individual employees, what he/she perceives about the organisation, how much he is satisfied with employee systems and how effective the various sub-systems of the HR are in delivering satisfactory service to internal customers, i.e. employees. Periodic analysis through organisationwide surveys must be undertaken and the outcome of such surveys could be taken as feedback for rationalisation and improvement of HR systems and policies. HRD audit in all the vital areas like training, performance management, compensation and benefit administration, recruitment, and promotion has a far-reaching effect in reducing deviations, plugging revenue leakages and improving system effectiveness.

Internal communication system is a powerful tool for change management, which banks need to focus on. Employee communication system within the organisation must be made easy, flexible and responsive to ensure free flow exchange of information. The current culture of top-down communication prevalent in PSBs should also accommodate bottom-up communication for greater employee involvement in improving organisational systems. HR has to play an important role in reaching out to people through innovative channels like the intranet, employee feedback, etc. and establish a forum for constructive interaction.

These proactive steps would certainly change the thinking in the management, leadership style, attitude of staff and more importantly would bring about a good HR governance system in the organisation.

(11) Career Management Systems

Proper career management systems are essential ingredients for harnessing the true worth of people. PSBs, with their overbearing IR and personnel functions, perhaps could not better recognise the importance of career planning and career development sub-systems as effective measures for ensuring employee motivation and commitment. Employees need to be made aware about various career streams available within the organisation, which they can think, plan and aspire for growth. There must be suitable interventions and processes to facilitate employees to choose their career options by way of counselling, development inputs, role exposure, and deployment initiatives, etc.

(12) Training and Development Agenda

When such dominant and organisationwide changes are aimed at in PSBs through behaviour modification and learning initiatives for a large number of people who have divergent needs spread over geographically dispersed territories, one can gauge the scale of training and development efforts required. In PSBs when the organisational transformation is underway, carrying out massive training and development programmes is an uphill task, as business continuity would also need to be taken care of.

The intent is successful transfer to and acquisition of knowledge and skill content by the target group. Training should be aligned with the business requirements of banks. The focus of training must now be on changing the attitude of people to become customer centric, on enhancing selling skills, service delivery, bringing cultural alignment and also to transform them into entrepreneurial managers. Preparing a programme for creating digital awareness and developing people competencies to operate in technology oriented banking environment is another major issue to be addressed in HR today. Executive education should also become a continuous activity. There should be a collaborative partnership with prestigious Indian and global business schools to impart the desired executive skills. The training system also needs to be scientifically assessed for its effectiveness. In these days of rapid changes in the business and banking environment, 'unlearning' the old skills itself would need to become the focal part of the training agenda. 'Relearning' and 'Retraining' of newer skills could then be the next step forward.

VI Conclusions

Indian banking has entered the new era of technology-enabled and customer-centric banking. It is bracing itself to catch up with the global trends in banking – in the matter of upgradation of service quality standards, provision of multiple delivery channels, newer innovations in products and services and provision of financial services beyond the traditional boundaries of banking. Whilst pursuing these endeavours, Indian banking continues to readjust itself to the demands and compulsions of evolving global prudential standards. In this journey, the banking sector is supported by a robust supervisory system.

While reforms in the matter of financials, technology, supervisory system, etc, have been pursued with vigour in the last 10 years and have taken deep roots, reforms in the area of HR have been lagging behind. In the past few years, Indian banking has witnessed radical transformation in the way it operates. This is only the beginning of the journey. For successfully operating in the new banking order, they need to build new capabilities. For pursuing frontline excellence, they need to redefine and readjust the roles and responsibilities of the frontline organisation and the staff. The new order will also call for a new organisation model at the branch level – all centered around the customer. Yet another challenge is building leadership capabilities at the top and middle levels, as the new order will call for a new breed of leaders. Retraining and re-skilling in tune with the new requirements would also have to be afforded prime place in the organisations' agenda.

In tune with the paradigm shift in Indian banking, the HR function in the banks has to extricate itself from the mode in which it found itself over the last four to five decades. As the market has changed, the customer too has changed, customer expectations have taken new forms, and people policies also have to change, as it is the people who will be the key differentiators in the new era. Together with financial capital and technology capital, human capital would contribute to the capabilities of the banking organisations to adjust to the new banking order.

Public sector banks are rapidly taking several steps to adequately capitalise themselves in order to meet the Basel II norms and improve their financial health, but the time has come to focus

closer attention on the 'HR Capital Adequacy' in individual banks. Though not yet operationally defined, a high level of people competence, effective HR systems resulting in a healthier bottom line is certainly an indicator of high level of HR capital adequacy which PSBs need to achieve.

The agenda for HR reforms is mammoth. Setting in motion these reforms brooks no delay. For all this to happen, the HR function would need to be accorded strategic focus and leadership. This strategic role can be played by the board and CEO. With HR occupying a place in the top management agenda, it will have the benefit of strategic direction from the key policy makers. This will in turn enable HR functions to drive the organisational transformation initiatives. Yet another challenge is to address the issue of professionalisation of the HR function. In tune with the times, the function has to graduate from being merely an administrative and establishment function to being a developmental function. The strategic role played by the board and CEO with regard to HR functions will help speed up the transformation of this into a developmental function.

Having readjusted itself with the enormous challenges in operational and technology areas, Indian banking will be doubly blessed in its journey towards global banking, when it takes on the people challenges, with all seriousness and urgency. Leaders in PSBs can take a cue from the prescription provided by C K Prahalad. He enunciates the factors which make an organisation world class: An optimism to be world class, imagination, strong leadership, entrepreneurship, new and indigenous organisation models, technology and adaptation of technology, accountability and transparency in performance, and recognition of resistance to change and managing the same.

To become world class banks, it is therefore clear that PSBs have to embrace and enthusiastically implement world-class HR practices. With India emerging as a dominant knowledge power, it is only in the fitness of things that Indian PSBs too accord high value to human capital and take momentous steps forward to reach world class HR capital adequacy. It is apt to mention the observations of Narayana Murthy, chief mentor, Infosys, on the organisational attributes required for success in the PSBs: "Only those banks which use speed, imagination and excellence in execution will survive. Others will disappear like dew in the morning. Indian banks have several legacy issues hampering their progress – including inadequate customer support, human resources practices and a customer-centric focus." [4]

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[These are the personal and professional views of the author. The author also acknowledges the professional contributions made by V G Subramaniam, C V Chandrashekhar and Prakash Ranjan in preparing this article.]

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