HR Reforms in Indian Public Sector Banks: A Critical Review

Divya Dandwani[1]
Assistant Professor and Head,
Department of Management Studies
Christ College, Jagdalpur, Chhattisgarh, India

Dr. Archi Dubey[2]
Associate Professor,
MATS School of Business Studies
MATS University, Raipur, Chhattisgarh, India

Abstract

The banking sector is the heart of all the economic activity of a country and a little ammendment in its regulation affects the complete economy. The banks are the institutions that affect the economy and affect their work for better or worse. Banking sector reforms started with the target to boost the general performance of the Indian banking sector. Numerous reform measures introduced in India have indeed strengthened the Indian banking system in preparation for the fresh world challenges ahead. The present paper reviews the HR reforms in Indian Public Sector Banks, numerous challenges faced by Indian Public sector banks. While concluding the paper, few suggestions mentioned clearly explains that various HR reforms if properly and carefully implemented will lead to job satisfaction among staff in banks and ultimately can facilitate in growth of banks by building them more efficient and strong.

KeyWords - HR reforms, Public Sector Banks

1. INTRODUCTION

Before Independence

Modern banking in India started prior to 1786, with the formation of the General Bank of India. In 1806, the East India Company started the first Presidency Bank in Kolkata. Two more banks were set up in 1840 and 1843 named Bank of Bombay and Bank of Madras. Reserve Bank of India (RBI) came into emergence on April 1, 1935, with the enactment 50 of the Reserve Bank of India Act, 1934.The aim of establishing the Reserve Bank, as expressed in the preamble to the RBI Act, was to "regulate the issue of banknotes and the keeping of reserves with a view of securing monetary stability in India".

Post Independence

Even after independence, the banks were essentially urban-oriented and were beyond the reach of the rural people. A large section of the rural people still had to look upon the money lenders as their resort for credit. That's why the government decided to nationalize all the key banks in India. The first Nationalization succeeded in 1969 and the second one in 1985.

Banking Reforms in India

The Indian economy observed a series of difficulties like undetermined political state of affairs, persistent fiscal imbalance, double-digit inflation, the balance of payments crisis, etc.

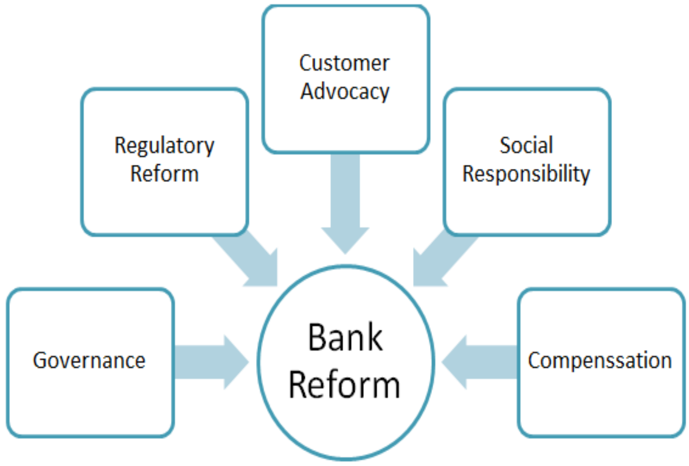

Figure 1

During the decades of the 60s and the 70s, India nationalised most of its banks. This finished with the balance of payments crisis of the Indian economy where India had to airlift gold to International Monetary Fund (IMF) to loan money to meet its financial commitment. This event called into question the previous banking policies of India and stimulated the era of economic liberalisation in India in 1991. Given that inflexibility and weaknesses had made serious inroads into the Indian banking system by the late 1980s, the Government of India (GOI), post-crisis, took several steps to remodel the country's financial system. The banking sector, handling 80% of the flow of money in the economy, required serious reforms to make it internationally reputable, encourage the pace of reforms and develop it into a constructive usher of an efficient, dynamic and competitive economy by adequately supporting the country's financial needs. From the 1991 India economic crisis to its status of third largest economy in the world by 2011, India has developed outstandingly in terms of economic development. So has its banking sector. During this period, recognising the evolving needs of the sector, the Finance Ministry of Government of India (GOI) established various committees with the task of analysing India's banking sector and recommending legislation and regulations to make it more effective, competitive and efficient. Two such expert Committees were established under the chairmanship of M. Narasimham. They presented their recommendations in the 1990s in reports widely known as the Narasimham Committee-I (1991) report and the Narasimham Committee-II (1998) Report. These recommendations not only helped release the potential of banking in India, they are also recognised as a factor towards reducing the impact of global financial crisis starting in 2007. India is no longer insulated from the global economy and yet its banks survived the 2008 financial crisis relatively safe, a feat due in part to these *Narasimham Committees*.

The purpose of the Narasimham-I Committee was to study all aspects about the structure, organisation, functions and procedures of the financial systems and to advocate enhancements in their efficiency and productivity. The Committee submitted its report to the Finance Minister in November 1991 which was tabled in Parliament on 17 December 1991.

The Narasimham-II Committee was tasked with the advance review of the execution of the banking reforms since 1992 with focus on further strengthening the financial institutions of India. It focussed on problems like size of banks and capital adequacy ratio among other things. M. Narasimham, Chairman, submitted the report of the *Committee on Banking Sector Reforms (Committee-II)* to the Minister of Finance Yashwant Sinha in April 1998.

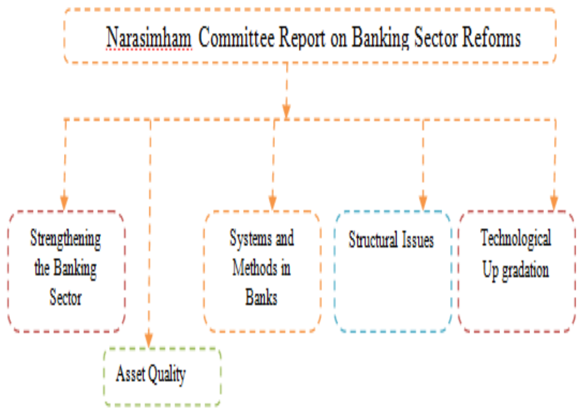

Figure 2

2. REVIEW OF LITERATURE

Singh and Das (2002) attempted to analyse the banking sector reforms introduced in India. They found that the various reforms undertaken over the past few years provided the foundation for an efficient and well-functioning financial system. They viewed that Human Resource Development, Technology, Industrial Relations and Customer Service are the four pillars of the banking system of the future. **Khandelwal (2005)** PSUs are though trying to implement the new technology in order to meet the competitive world, but major change has to be in implementing the HR reforms. To make changes organisation wide, top management support is must. **Bertrand, Schoar and Thesmar (2007)** scrutinized how the deregulation of the French banking industry in the 1980s affected the real behaviour of firms and the structure and dynamics of product markets. Following deregulation, banks are less willing to bail out poorly performing firms and firms in the more bank-dependent sectors are more likely to undertake restructuring activities. At the industry level, they observed growth in asset and job reallocation, development in allocative efficiency across firms, and a decrease in concentration. Overall, these findings support the view that a more efficient banking sector helps stimulate Schumpeterian process of "creative destruction." **Shukla (2014)** This study is focused on the major difficulties faced by HR manager in Public Sectors Banks in India to cope with the environmental changes for competitiveness. This study highlights the various HRM problems encountered by public sector banks of India. Present study has number of implications for HR managers, policy makers and HR professionals. **Shivagami and Rajendra (2016)** The financial sector has played a vital role in India's economic development. With the view of utilizing the scarce financial resources for speedy economic development, the financial sector in India was subjected to various controls and regulations. This 'Control Raj' became more pronounced in the late 1960's in the aftermath of the famous bank nationalization. The regime definitely helped in advancing the financial and economic development. However the financial sector at a later stage started suffering from 'financial repression' as argued by M C McKinnon and Shaw (1973), where the real interest rates turned out to be negative or zero, thus discouraging savings, investment and adversely affecting the pace of economic development. These controls and regulations also affected the financial, health of the banks and financial institutions. **Dr. Chanderjeet (2017)** This paper studies a review of human resources management policies and practices in the banking sector in India mainly in Public Sector Banks with consideration of some key indicators of banking sector such as job analysis, recruitment and selection, training and development, performance appraisal and compensation. As a result, the suggestions will support proper involvement of human resources management practices in the Indian public sector banks. **Suman (2017)** The study covers all the salient areas of human resource development in banks. These areas incorporate conceptual clarification about human resource and human resource development in banks, necessities of HRD, the sub-system of human resource development like performance appraisal, training, management development, career planning and development, organization development, participative management, quality circles etc. These primary areas of human resources development will be studied completely to the maximum extent through the means of discussion, interviews, reports, accounts, observations etc. **Arun D'Souza (2017)** The data on non-performing assets and assets securitised by all scheduled commercial banks over the period of last ten years is analysed in this study using ordinary least square method of regression. The results in this study indicate that there is a no significant positive relationship between the securitisation and decrease in non-performing assets. **Kalyan (2017)** This study focuses on the impact of reforms and analysis in Indian banking system. The Indian banking system consists of 26 public sector banks, 25 private sector banks, 43 foreign banks, 56 regional rural banks, 1,589 urban cooperative banks and 93,550 rural cooperative banks, in addition to cooperative credit institutions. The aim of this paper is to study the performance of banking industry in India. **Malviya (2017)** This paper tries to covers all the vital areas of Human Resource Management in bank. These areas comprise HR practice in banks like Job Analysis, Recruitment, Performance appraisal, Training & development, compensation etc along with HR issues and challenges. The aim of this study is to find out major issues & challenges faced by public sector bank in India using secondary sources. **Kaur (2017)** The study aimed to measure productivity in SBI Group with respect to per branch and per employee. Data has been collected from secondary resources, mainly the annual reports of Reserve Bank of India (RBI) and Indian Banking Association (IBA). For measuring growth & growth rates, study period has been divided into six equal sub periods of two years starting from years 2003 to 2013. Paper concludes with the help of selected financial indicators and compounded rate of growth. The study attempts to accomplish its objectives by making cross-sectional and inter-temporal analysis on the basis of 17 indicators. These indicators are divided into three categories. While one set of indicators measure output in terms of input of number of employees‟ i.e. labour productivity, next set of indicators measure branch productivity. The last set of indicators depict productivity on the basis of certain financial ratios. The division has been done by considering the fact that recruitment of employees and opening of branches are not even in different years. **Ibrahim (2019)** The paper emphasizes the conceptual framework of Non-Performing Assets known as NPA and also further discusses and analyses the trend of NPAs in the three sectors of banks namely public sector banks, new private sectors banks and foreign banks for the preceding period of ten years (2007-08 to 2016-17). This study also covers the measures to be taken to reduce the menace of NPA in banks. **Latha and Rao (2019)** In this paper An overview of HRD practices in Indian banking sector is presented. Changing socio-economic profiles of the customers, government policies, changes at national and international levels have necessitated the banks to strengthen the human resources through effective HRD practices. Training and development, employee feedback and counselling, career and succession planning and compensation and reward management are the key components in HRD practices in banks in this paper.

3. HR PRACTICES IN BANK

A) **Job analysis:** Job analysis involves gathering information about the characteristics of a job using one of several methods such as observation, interviewing, questionnaires, or more specialized job analysis methods such as position or functional analysis. Organizations at times prefer to use a combination of job analysis methods. All the Banking authorities reported that they adopt a combination of several methods for job analysis of the employee.

B) **Recruitment and selection:** Public Sector Banks adopt systematic procedure in recruitment and selection activities. Indian Public Sector Banks use both methods of recruitment i.e., internal and external sources. Mostly, for clerical and officer posts, external market is used through advertising etc. On the other hand, for higher positions like managerial or executive positions, the internal market is usually relied upon and positions are filled up through promotions and transfers.

C) **Training and Development:** Banking activities and knowledge is ever changing. In order to cope up with these changes and to develop employee's careers all banks established their own training institute that organizes different types of training and development programmes based on the employees need. Those training needs are identified by need assessment activities. Banks give more emphasis to training, although not much systematic training need analysis is carried out. For junior level bank staff, training colleges conduct few training programmes. Banks depend on external agencies, especially foreign training organizations for training senior level staff.

D) **Performance Appraisal:** Performance appraisal is the systematic, periodic and an impartial rating of the employee's excellence in matters relating to his present job and of his potentialities for a better job. Public Sector Banks in India give more attention towards performance appraisal.

E) **Compensation:** Compensation in Public Sector banks is chiefly based on seniority or work experience. The Indian public sector banks should reward their professionally qualified employees by scale upgradation and special increments besides motivating and encouraging them to acquire new knowledge.

4. HR ISSUES /CHALLENGES

1) Talent Management: It has been classified in two categories:

(A) Talent Acquisition- In India, public sectors banks are highly regulated that they itself can't obtain talent on their own basis. Public sectors banks are not provided with much flexibility to attract talent on market price. This causes the problem of skill mismatch and has decreased the strength of employees in recent times.

(B) Talent development- After Acquisition of talent it is very essential to develop the skills in desired way. Changes are always obvious from environment and for keeping pace with that changes talent need to be brushed up. Studies revealed that training and development are not well equipped in PSB's, even not very effective.

2) Staffing and promotion: Even in public sectors banks vacancies are fulfilled according to the availability of seats not by the skills mismatch, this tendency is another problem for development of talent. Promotion should be linked to both performance and experience of employees. But in the PSB's these concepts seems almost diluted and affect the proper utilisation of skills, knowledge, abilities of employees.

3) Performance Appraisal: Performance appraisal is the tool which is used by HR manager for identifying the problem area and troubleshoot them for managing the performance of the employees up to the level. In Indian public sector banks Performance appraisal is not used accurately and not related with the promotion and incentives. There is no such concept as 360 degree appraisal, which is widely used by private sector banks.

4) Compensation and Incentives: Compensation and incentives are not related with the performance of employees in PSB's. Remuneration and salary is regulated by the government. But at times it causes problem of equality and leads to dissatisfaction of employee which further leads to employee turnover. Even the salary and remuneration are less in compare to other sectors that is why it is least preferred job by the eminent talent.

5) High Employee turnover: Though, various job vacancies are opening daily by banks and new employees are joining different Public Sector Banks but the employee turnover rate is increasing continuously. New hires are migrating in large amount from banks for joining new attractive sectors for better facilities and salaries. This turnover is working as barrier for the proper functioning and growth of PSB's. There are various reasons for high employee turnover like low salary and poor fringe benefits as compared to other industries, organisational culture, monotonous work, and high mental pressure etc.

6) Leadership Gap and Succession planning: Eminent top level executives are the strength of Indian banking system. But the superannuation of these personalities is causing the problem of leadership gap. New talent resist to join the banking industry and stay for long time, head poaching working as another problem. Talent development is not up to the mark that can fill the vacant top positions.

5. OBJECTIVES OF THE STUDY

- To study the various HR reforms in public sector banks in recent era.
- To study the impact of HR reforms on job satisfaction of employees in public sector banks.
- To give suggestions based on the study.

6. DATA COLLECTION

The present study is carried on with the help of secondary data. The secondary data are collected through official site of Reserve Bank of India, Government Publications. The sources of the secondary data are RBI publications, published data of banks, newspaper clippings, economic survey and other reports of government of India, published and unpublished research works of various eminent scholars in the field. This Qualitative Research in this study used the Exploratory Research Design for probing the knowledge and information about the Indian banking sector specially Public sector banks.

7. LIMITATION OF THE STUDY

This study will advance the performance of financial institutions only in the wake of Narsimham Committee II. The study has been carried out with the help of the secondary data collected from various sources. There may be window dressing in the records to show better results. The limitation of these data adds to the limitation of this study.

8. SUGGESTIONS

On the basis of review of study related to the topic, following suggestions can be mentioned:

1) Public sector banks should frequently invite staff for suggestions and their active participation in meetings in order to encourage staff satisfaction and remove the gap between employee and top level management.
2) There should be proper arrangement of recruitment programme so that right person will get right job.
3) While there must be rewards for performance, non-performance must be punished/ reprimanded.
4) Promotions must be only on merit basis.
5) There must be uniform, impartial and balanced "employee performance review system."
6) There must be a clearly defined system of succession planning and career growth planning in banks.
7) More openness, transparency in personal matters, high value of human dignity, people oriented management system, creating belongingness and trust, two-way communication to reduce employee turnover.
8) Banks need to have a system, whereby the training needs of an employee can be identified and are duly fulfilled at every stage of career growth.
9) Compensation and incentives must be linked with the performance of employee.
10) Opportunity to work as a leader should be given to new bright talented employee.

CONCLUSION

Competitiveness is must for the survival of business firms. The success of banks essentially depends on the coherent growth of the banking employees. Public sector banks have strongly implemented several reform measures in the last decade. Now a days They are facing fierce competition from new generation private sector and foreign banks who have entered the market with advanced technology, extremely competent individuals and a market savvy customer-centric banking approach. Today, when Public sector banks have already started executing the new age banking technology to meet the challenges, the main differentiation can only be made by fundamental reforms in the area of human resources. Along with reasonable growth of the knowledge worker, technical infrastructures of the bank must be assured to develop the effectiveness of the staff and the bank. Recently announced managerial autonomy package by the government provides give scope 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 support from top-level for organisation wide impact. So, best utilisation, development and retention of talented staff become compulsory for PSB's. Hence, HR reform is necessity for Indian banking sector. The central point which needs much consideration is that HR practices and policies should be properly linked to the business strategies. This idea is now mandatory for realisation of full benefit of Indian banking sector. Henceforth, the public sector banks in India have to utilize many opportunities to meet certain challenges under the prevailing circumstances.

REFERENCES

- https://www.myloancare.in/info-bank/banking-sector-reforms/
- https://en.wikipedia.org/wiki/Narasimham_Committee
- https://kalyan-city.blogspot.com/2010/09/narasimham-committee-report-1991-1998.html

- https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?ID=22
- https://pscnotes.in/banking-sector-reform-india/
- Chanderjeet, D. (2017; 3(7): HRM practices in public sector banks of India. *International Journal of Applied Research* , 626-628.
- Kalyan, D. N. (2017). BANKING SECTOR REFORMS IN INDIA. *IJMH - International Journal of Management and Humanities ISSN: 2349-7289* , 7.
- Malviya, D. (December 2017). Emerging Issues of Human Resource Management in Public. *International Journal of Engineering Technology Science and Research ISSN 2394 – 3386 Volume 4, Issue 12* , 482-485.
- Bertrand, M., Schoar,A., Thesmar, D (APRIL 2007). Banking Deregulation and Industry. *The Journal Of Finance • Vol. LXII, NO. 2* , 597-628.
- Prasad, G. S. (June 2016). Impact Of Banking Sector Reforms - An Analysis. *Shanlax International Journal of Economics 2 Vol. 4 No. 3 ISSN: 2319-961X* , 8.
- Shukla, S. (15 May 2014,). Emerging Issues and Challenges for HRM in Public Sectors Banks of India. *Procedia - Social and Behavioral SciencesProcedia - Social and Behavioral Sciences Volume 133* , Pages 358-363.
- G. Shivagami and T. Rajendra Prasad (June 2016). Impact Of Banking Sector Reforms - An Analysis. *Shanlax International Journal of Economics 2 Vol. 4 No. 3 ISSN: 2319-961X* , 8.
- Kaur, N. (NOV-DEC 2017). Productivity In Indian Banking Sector- A Study Of Sbi Group. *Scholarly Research Journal for Interdisciplinary Studies, VOL- 4/37* , ISSN 2278-8808, 9078-9096.
- Ibrahim, M. S. (2019). Trend of Non-performing Assets (NPAS) of Indian Commercial. *International Journal of Advances in Management and Economics ISSN: 2278-3369* , Vol.8 Issue 5 01-07 .
- Latha, V. M. Rao, V. N. (*2019*).Human Resource Development Practices in Indian Banking Sector – An Overview. *IOSR Journal of Business and Management (IOSR-JBM). e-ISSN: 2278-487X, p-ISSN: 2319-7668. Volume 21, Issue 10. Series. PP 35-39* DOI: 10.9790/487X-2110053539
- Khandelwal, A. K. (2005). Criticality of HR Reforms for public sector banks in the New Era. *Economic and political weekly.* Vol. 40, Issue No. 12,1127-1135
- Suman, K. (2017). Human Resource Management and Practices in Indian. *International Journal of Academic Research , Vol.4* (Issue-2 (1)), 104-113. *ISSN: 2348-7666*