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HRD Issues in Banking – A Case For Employee Empowerment
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FROM THERE TO HERE

Banking industry has undergone a sea change since the times of the British Raj where profit was the prime consideration. It then moved to the socialist era of seventies and eighties where serving the commonest of the common man in the remotest corners of India was the sole objective. During this period, the nationalized banks operated with a view to give access to as many people as possible to organized banking. Bank policies were directed towards the social objectives of employment generation and employee welfare and, HRD performed merely an administrative and regulatory role.

In the last few years, banking as a function, has come full circle. The prime mover for banks today is profit, with clear indications from the government – ‘perform or perish’. This change is a result of the banking reforms - namely the Narsimham committee recommendations, liberalization and opening up of the economy in nineties and the government’s decision to privatize the banks by reduction in state ownership.

With the current change in the functional orientations of banks, the entire purpose of banking is under redefinition. The driver’s of this change are:

- **Changing customer needs and expectations:** Customers in urban India no longer want to wait in long queues and spend hours to deposit or withdraw. They are asking one fundamental question. “If it’s my money, why should I be kept waiting?” This change in customer attitude has been substantiated with the development of ATM’s, Phone and net banking and availability of service right to their door steps. Banks like ICICI, HDFC and UTI are aggressively deploying ATM’s and have seen their customer base swell. India currently has about 5000 ATM’s, which are predicted to grow exponentially to a phenomenal figure of only 30,000 ATM’s within the next 7 years. ICICI bank goes all the way to provide account opening facilities to the customer doorstep. Add to that, world class banking experience provided by private and multinational banks with their ever evolving products and services. All these have raised the bar of customer expectations. There have been indications of emergence of universal banking where banks aim to provide all banking product and service offerings under one roof. The biggest in the foray being the reverse merger of ICICI bank with ICICI.

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"In the last few years, it is no wonder that the banking sector has seen a virtual cornucopia of new products: credit cards, telebanking, ATMs, quick collection facilities for outstation cheques, retail EFT, Electronic Clearing Services ECS Debit and Credit for repetitive payments like dividend, interest, utility bills, Internet Banking, etc. Now there are indications of moving towards the introduction of smart cards, debit cards, online banking for ecommerce and financial EDI for straight through processing."(speech of Mr.S. P. Talwar, Dy. Governor, RBI at Institute For Development And Research In Banking Technology (IRDBT), Hyderabad)

- **Impact of technology:** Banking as an industry has seen the maximum impact of computers and technology. From the days of manual records to the age of ATM's, EFT's, and smart cards, IT has revolutionized the ways in which banks work. All these developments should leave no doubt in our minds about the emergence of the new age banking. A bank that will be as virtual as it will be real. A place where customers will rely more and more on technology driven transactions and will choose banks that best suit their requirements.
- **Competition from Private Banks and MNC's:** The liberalization of the last ten years has seen enormous competition from MNC's who are setting the standards of excellence in customer service and technology, at much lower costs due to lesser manpower and more efficient management systems. Indian banks have to catch up with these global trends and redefine their standards of operation. No wonder that many banks are now looking at implementation of quality standards like ISO 9000.
- **Transparency towards the government, stakeholders and customers:** Post stock market scam and with more scandals coming through after that, the various stakeholders are now demanding more and more transparency in financial transactions. This demand for transparency has driven banks to ensure that their bottom lines do not conceal the flaws of the system.

A CASE FOR EMPLOYEE EMPOWERMENT

So how can the banks gear up to the emerging needs and challenges thrown up by the external environment?

The answer is an open secret. It is no doubt that the banks now have no option but to keep their economic viability of banks intact, and they are now making that mindset change. Banks are now concentrating on getting the banking fundamentals right. This includes a constant focus towards profit with reduced incidence of bad loans, NPA's etc., incorporating new initiatives to ensure that deposit mobilization and loan disbursement is the maximum etc. However, in all this, it will not be possible to be in tune with the rest of the world unless the HRD function in banks move towards empowering their manpower to lead the change wave

Issues relating to HRD which had been relegated to the background in last couple of decades can no longer stay as they are. When the entire organization set-up is undergoing change, HRD as a tool and catalyst of change also needs to become radically involved in the entire banking process.

Thus the second key driver which is going to be an important attribute in deciding whether a bank is a star performer is empowerment of manpower.

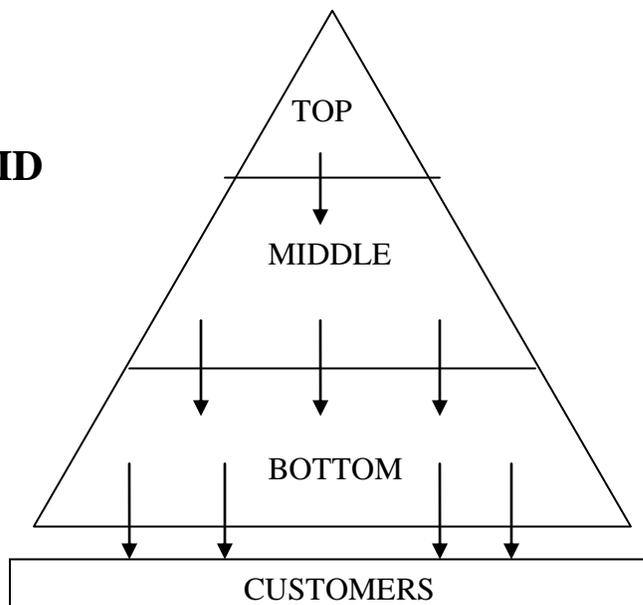
The Narsimham committee on the banking reforms has emphasized the need for operational restructuring in chapter seven of the committee report: “The system is in an increasing competitive environment and will face new challenges and also new opportunities. There would be more scope for competition both among the banks and between the banks and other players in the system who are more conscious of costs and who place an accent on efficient service. It is therefore necessary that banks equip themselves with a right organizational structure and even more importantly right personnel and system to cope with these challenges”. (IBA bulletin February 2002- Job Satisfaction Among Employees: Cadre Wise – A case study by T. Vijay Kumar and Dr. S. Annamalai.)

ISSUES IN MANPOWER EMPOWERMENT:

A. Organization Structure:

Most banks are used to functioning in a rigid hierarchical structure. This was the product of a perfect pyramid where the approach was clearly top-down. All the powers of policy and decision making rested with the top echelons of hierarchy with employees at the lower end of hierarchy following orders handed down to them. There was no scope of questioning the decision of authority and whatever was given, was accepted as the final implementation variable.

**THE
PYRAMID**

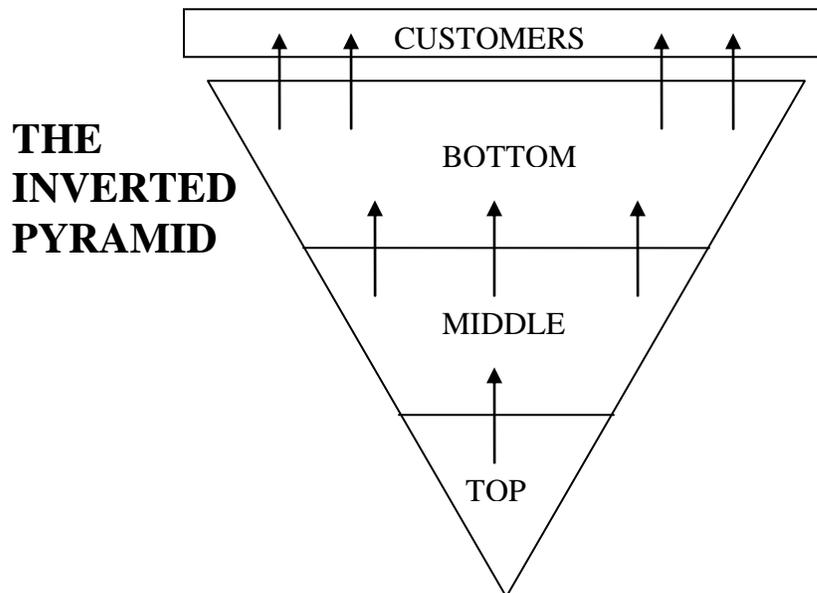


This structure was rightly in place keeping in view the modalities of banking sector in the seventies and eighties. With a clear agenda of spreading out to the remotest possible corners of the country and making finance available to all countrymen, the growth of every bank was benchmarked against number of bank branches opened and employment opportunities generated by each bank.

Not any more. The objective has changed with the changes in the external environment. Banks do not have the liberty to extend lead times and they need quick response time to adjust to changes in tactics followed by other banks. This calls for delegating certain decision making powers right to the officer and executive level, where the employee interfaces daily with customers.

Hence the organization structures need to be leaner and flatter, with gradual decrease in hierarchy. The decision making powers in important strategic issues need to be vested at the top, but tactical issues need to be delegated to ensure quick and productive use of vital information through response time.

At a conceptual level, the pyramid structure of the banks needs to be inverted. Putting the customer on the top with the first level employees empowered to service the customer, the middle management empowering the bottom level and the top management empowering the middle management.



The flow of communication now needs to be both: Top-Down and Bottom-Up in the organization set-up to ensure maximizing output from continuous market information learning. This not only ensures generation and sharing of knowledge, but also a strong sense of ownership and belonging amongst the employees.

In the context of the changing economic and business environment, there is a realisation that a rigid and hierarchical structure, which gives preference to seniority over performance is not the best environment for attracting and retaining the best talent or the best output from professionals. Accordingly, there is a critical need to review and improve strategies for recruitment, placement, career development and performance management. (XIV Human Resource Development & Organisation matters – Reserve Bank of India Annual Report 30/08/2002)

B. Employee Motivation:

A basic human urge is to be seen and appreciated for the work performed coupled with the chance to move ahead. This is as true in banking as in any other industries.

Previously, employee motivation was restricted to providing the required training as and when a need was felt by the individual banks. Various organizational issues such lack of proper reward and punishment mechanism, rigid hierarchical structures, lack of proper mechanism to award efficiency, innovation and excellence, incentive linked schemes etc. were responsible for low levels of motivation. The management of employee motivation through deployment of soft skills, non-monetary benefits, open communication, and out of turn promotions for the meritorious, were not on the priority list of banks. Aspects such as providing with the best working condition with an ambience of work and satisfaction were often overlooked. Compensation benefits were based on industry level settlements between representatives of Indian Bankers Association and Unions; where they entered into bipartite agreement in lieu of increments. This was applicable to all employees across, irrespective of their individual performance or non-performance.

All this was acceptable in the bygone days but not any more. With the entry of private and multinational banks, issues on employee motivation have taken a new dimension. It's no longer sufficient to provide the basic minimum for the employees. Incentives based on performance, productivity linked bonuses, provision for world class working conditions, allowances based on job profiles etc. need to be incorporated. Leadership styles need to move from authoritative and autocratic to participative.

Banks have the added challenge of the 26,000 strong workforce whose applications were rejected under VRS. It will be a challenge to improve commitment and morale of these employees who opted for VRS but were ineligible under the scheme.

Employees who opted for VRS have stated that among other reasons,

- Fear of accountability and disciplinary action and
- Lack of transparency in accountability as a constraint to better performance were the prime considerations.

With the entire banking focus now moving towards profits and profitability, it is imperative that employee motivation becomes one of the top priority issues for the banking fraternity. When the employee is motivated-customer served well- does more business with banks – profitability of bank goes up – benefits passed on to the deserving employees – employee is motivated. This circle of excellence is of prime importance in customer centric business processes that we are witnessing in banking today and more so in the years to come.

Motivated Employee → Excellent service to customers → Satisfied and delighted customers → More business with the bank → More profits for banks → Profits passed on the deserving employee → motivated employee → excellent service to customers →

C. Recruitment and Selection

A chain is as strong as its weakest link and a bank is as dynamic as its employees. To make the dynamism of banks reach new levels, banks need incorporate comprehensive policies for infusing fresh talent and young blood on an ongoing basis. In the past selection through the Bankers Selection and Recruitment Board (BSRB) and Institute of Banking Personnel Selection (IBPS) was mandatory by all nationalized banks. In order to give more freedom and quick decision making for the banks, the mandatory clause was removed. However, given the many years of reliance on the expertise of IBPS, the banks found that they did not have the infrastructure and expertise to conduct their own recruitment. Therefore many banks continued to use the services of IBPS for selection of the right numbers. However, this is seen by many as a transitory stage to more autonomy in the selection process in the future.

The Reserve Bank of India has initiated a Summer Placement Scheme by inviting applications from reputed management institutes. For the year 2001-02, 26 students were selected in Maharashtra and Goa for preparing project reports in different areas of central banking (XIV Human Resource Development and Organisational Matters- RBI annual report 30/08/2002). This is a positive step which can be a sign of things to come across the banking fraternity.

Although, post VRS all public sector banks were directed to freeze recruitment for two years, fresh recruitments can be made after justifying the need to the government. This recruitment freeze was directed with a view to rationalize costs incurred in the entire VRS exercise and to increase productivity of existing employees. But with changing banking scenario and business dynamics, its imperative that banks take a lead in forming the right employee mix to come out with new and better product and service offerings for the customers.

Hence the Recruitment processes need to be decentralized with more autonomy accorded to each bank to form their own recruitment and hiring policies. This helps banks to tap the best talent available, not only at the entry level, but also middle and top management levels. This will not only make talent accessible to banks but also help strengthen the quality of its workforce. The Narsimham committee recommendations state the need for banks to adopt a more proactive approach towards infusing new talent within their respective set-up. And in this age of constant innovation and change coupled with hire and fire policies, banks need to be flexible enough to attract strong links in the chain and do away with the non-essential, non-productive staff.

D: Collective Bargaining

Collective bargaining process is applicable to all banks uniformly, as result of agreement between the Workmen Unions and Indian Banks Association (IBA) who represent the management. Historically, unions and management settled workmen's service conditions through the process of adjudication by successive tribunals. But both the parties found this process to be time consuming, expensive and generating adverse employer – employee

relationship. Up unto now there have been 7 bipartite settlements through which the collective bargaining process has rolled on.

In the collective bargaining process unions generally had the upper hand. This perhaps could be attributed to the absence of joint strategy by management, as also lack of adequate homework on the part of its representatives.

A firm strategy and readiness to meet threats of strike, agitation etc. is necessary to clinch basic issues such as abolition of restrictive practices, reduction of overtime etc. The problem is not merely to make unions agree to sign a particular settlement but, to educate managers as all levels to implement such settlement in letter and spirit. “Unions which sign the settlements have a responsibility to educate and advise their constituency against creating any hurdles in the implementation process” according to Mr. Darshan Kumar – Principal – Syndicate Training Institute – Bombay.

The success of collective bargaining lies in honest implementation of settlement by both the parties and development of effective communication strategies in conveying the spirit of settlement to the lowest level.

This will ensure employee motivation and high morale on the work environment. Due to improved management and worker relationships the entire set-up can effectively gear towards moving ahead and facing the challenges posed by the external environment, rather than being pre-occupied with internal issues.

E. Voluntary Retirement Scheme in Public sector banks:

Almost all Public sector banks (except Corporation bank) had introduced VRS. This was done with an aim to increase organisational efficacy through right sizing of workforce.

It was observed that a sizeable number of experienced and highly skilled staff opted for VRS and left the banks. This has created a huge void and there is a pressing need for training the remaining employees for upgrading their skills in the shortest possible time. The age profile of current employees shows that post- VRS only 16% employees are below the 35 years age group. There needs to be serious thinking in terms of succession planning and infusing young blood within the banking set-up.

The present promotion cycle under the existing promotion policy for the serving employees in 11 years. The average age of promotees at different scales reveals that promotion takes place at late stage in one’s career. This poses a challenge for grooming higher- level positions in Public sector banks. As there is high level of dissatisfaction among employees with the existing policy and procedures for promotion, formulation of a suitable promotion policy that will match the aspirations of employees and organizational needs is a major challenge for banks; which needs immediate attention. (Recommendations for coping with post VRS challenge- IBA bulletin February 2002)

Reasons given by the employees for opting VRS include transfer liability, low motivation & morale, fear of accountability and disciplinary action, common pay scales irrespective of performers and non-performers, inadequate performance and potential appraisal systems and fear of redundancy among others.

These aspects and reasons need to be studied indepth to understand the degree of dissatisfaction and fear prevailing among the existing employees and arrive at implementable solutions to address these issues. One area of recommendation is training in the areas of cross functional handling of tasks, computerization and automation, customer satisfaction etc. Thus banks need to frame policies that will draw positive response from employees as well as meet short tem as well as long term organizational needs.

EMPOWER OR EXPIRE

Culture is what defines the ethics and morality of a country, family or an individual.

Banks are an extension of the families where employees spend larger part of their waking lives. Hence it's the culture of the organisation that defines the functioning of each employee. Research studies have shown that organisations which have succeeded have

- An open door policy i.e. communication flows not only top down but both ways keeping customer in the centre.
- Transparency in internal operations to ensure that every employee is aware, not only of his duties but also his rights and has the ability to exercise them for his personal and organization growth.
- Dedicated human resource development policies where employees are treated as resources and not costs.

Hence the culture of every bank should be geared towards employee empowerment ad implementation of policies that generate high employee morale. High competency levels coupled with high motivation levels amongst employees will ensure dedicated efforts towards growth and development of the enterprise.

Issues which hinder growth and harm development should be dealt with, in the fastest possible way. Processes and advancements through technology and automation need to be geared up to ensure movement with the times and maximum output at minimum costs. MNC's and private banks which have entered the country post liberalization and banking reforms have a definite advantage. Since their inception they had the advantage of directing all their banking efforts towards generation of profit rather than going through the 'not-for-profit- phase which all the nationalized banks have been through. Thus the systems in place need not be attuned to the needs of the present times.

Keeping pace with the forces of globalisation and the dramatic advances in information and communication technology has hinged around continuous upgradation of skill and technical expertise and a high degree of professionalism among employees so as to ensure convergence between the goals of the employees and those of the institution. In recent years, there has been a growing recognition that capital and technology are replicable, but not human capital which needs to be viewed as a valuable resource for the achievement of dynamic competitive advantage. (XIV HRD & Organisation matters – RBI Annual Report 30/08/2002)

The banking fraternity which has been working closely within the constraints of a relatively rigid hierarchical top-down structure needs to give way to flexible and relatively flatter organization structures. This ensures maximizing productivity, output and employee initiative and minimizing lead time to servicing customers.

Common pay structures based on age of employee, number of years put in etc. need to be phased out in a planned manner. Performance appraisal based on quality of output, potential of the employee within the organization etc. need to be incorporated across all grades, cadres and levels. This will not only ensure maximizing productivity, but also go a long way in motivating star performers align with the long term mission and vision of banks.

Banking is all about transacting money through people, by the people, of the people and for the people. Even though, the involvement of people in the banking processes has been decreasing, thanks to seamless technologies; banking is a people oriented business.

With increased competition and forces of globalization acting in full force, it is imperative for each bank to strive to differentiate itself based on the quality of its services to customers. And this can only be possible through the initiatives from its internal customers – the employees. Systems and processes need to be incorporated within each bank to ensure maximum utilization of each employees capacity. Productivity linked incentives, providing opportunities and the right environment for growth and infusion of fresh talent are among the most immediate requirements.

HRD in the true sense of the term should strive towards comprehensive human resources development based on current requirements and capabilities and future potential of each employee. Issues relating to Industrial Relations, Appraisal Systems, Selection & Recruitment, Hierarchy structures and Compensation need to be made more in line with the current day norms. HRD as a function should evolve as a proactive facilitator to the next level of growth for banks. The message is clear: Empower or Expire.