

**Title: The Need of Proactive Leadership and HR Environment in Public  
Sector Banks (India)**

1. Author's Name: **Prof. Shraddha Kulkarni**

Faculty: Indira School of Business Studies, Pune.

Email: shraddha@indiraisbs.ac.in, Contact Number: 9822682244

2. Author's Name: **Dr. Samir Narkhede**

Faculty: Department of Management,

North Maharashtra University, Jalgaon.

Email: spn13371@gmail.com, Contact Number: 9371355377

### **The Need of Proactive Leadership and HR Environment in Public Sector Banks (India)**

**Abstract:** *Recent time has witnessed the world economy develop serious difficulties in terms of lapse of banking & financial institutions and plunging demand. Prospects became very uncertain causing recession in major economies. Opportunely, amidst all this chaos India's banking sector has been amongst the few to maintain resilience. However, when it comes to the quality of services provided by public sector banks, in particular, leadership and human resource management is the area where there is a need of taking initiatives for streamlining banking operations. This review paper has analyzed the research conducted on related topics and has included the viewpoints of subject experts and senior bank managers on current banking scenario in India.*

**Key Word:** *Leadership, HR initiatives, Public Sector Banks*

The pace of development for the Indian banking industry has been tremendous over the past decade. As the world reels from the global financial meltdown in Australia, Europe and USA, India's banking sector has been one of the very few to actually maintain resilience while continuing to provide growth opportunities, a feat unlikely to be matched by other developed markets around the world. Having major contribution in Indian GDP, Banking Sector is considered as a prominent sector for development. While talking about development the aspect that we need to concentrate on, is the basic difference between the private and public sector

banks. Although, Indian Government and Reserved Bank of India has always given protection to public sector banks, private sector banks are way ahead in term of quality of services that they provide, customer satisfaction and the transaction period. Thus, public sector banks even though able to gain the trust of general public have to wait a long road to reach to a level of providing world class services to its customers. As it is said rightly “every coin has two sides,” Indian public sector banks have been facing a number of challenges ever since the industry was opened up for private and international players. Social banking practices followed by public sector banks consequent to nationalization have resulted in increased non-performing assets, decreased profitability and operational efficiency.

In the interconnected world of today, forces of competition, consolidation and convergence are exerting continual pressures on organizations and individuals alike to deliver best value. Today, the confluence of market forces and technology has made business highly competitive. Integration of global markets, thinning profit margins and fast changing consumer preferences are forcing organizations to redefine their businesses and adopt different strategies. These trends have a more dominant impact on service industry like banking where money market dynamics further compound the nature of competition.

Many progressive corporations around the world have begun to internalize this new reality and are orchestrating the role of leader and HR in order to get best value out of their intellectual capital.

Some PSBs (Public Sector Banks) in India are legitimately aspiring to become world-class in their quality of products and service delivery. For them to emerge as globally competitive financial entities, they have to deliver greater value to the customer at lower costs and have to

continually innovate and achieve global benchmarks. To gain competitive advantage, knowledge and skills in their people would have to be leveraged by them.

Public Sector Banks, accounting for well over 70 per cent of the assets of the Indian banking system, have been contributing significantly over the years to the country's economic development and in particular, to rural and agricultural development, small scale industries and small businesses, besides too large and medium industries and export sector. Going forward, PSBs are expected to play a major role in the financing of infrastructure and new economy sectors, besides traditional sectors. Privatization of banking sector forced public sector banks to take up serious measures for improving profitability and efficiency of operations. Leadership and human resource management is the area where many initiatives were implemented for streamlining banking operations. In this paper the researcher has tried to analyze the challenges faced by public sector banks in terms of leadership and HR practices and made some suggestions based on the literature available.

### **Indian Banking Sector: At a Glance**

FICCI conducted a survey on the Indian Banking Industry to assess the competitive advantage offered by the banking sector, as well as the policies and structures that are required to further the pace of growth. According the survey conducted, a progressively growing balance sheet, higher pace of credit expansion, expanding profitability and productivity akin to banks in developed markets, lower incidence of nonperforming assets and focus on financial inclusion have contributed to making Indian banking vibrant and strong. Indian banks have begun to revise their growth approach and re-evaluate the prospects on hand to keep the economy rolling. The way forward for the Indian banks is to innovate to take advantage of the new business opportunities and at the same time ensure continuous assessment of risks. A rigorous evaluation

of the health of commercial banks, recently undertaken by the Committee on Financial Sector Assessment (CFSA) also shows that the commercial banks are robust and versatile. The single-factor stress tests undertaken by the CFSA divulge that the banking system can endure considerable shocks arising from large possible changes in credit quality, interest rate and liquidity conditions. These stress tests for credit, market and liquidity risk show that Indian banks are by and large resilient.

Thus, it has become far more imperative to contemplate the role of the Banking Industry in fostering the long term growth of the economy. With the purview of economic stability and growth, greater attention is required on both political and regulatory commitment to long term development programs.

#### **Current Leadership Scenario and HR Environment in Banking Sector:**

In order to respond to the huge requirement for developing leaders for the banking sector, there is need for a serious strategy which can address the problem in totality. The strategy has to be a carefully planned series of learning events, variety of exposures, assessment exercises, mentoring and classroom training. Moreover, leadership training must be buttressed by research and relevant case material. Our current leadership training lacks in these aspects. The current leadership programs, which in some cases also include exposure to training abroad, are at best an effort to guided exposure in the emerging areas of banking and management but these are not adequate for behavioral modification so as to prepare the people to perform strategic role.

Human Resources (HR) are more important in the service organizations than in goods producing industry, as their cost of labor is relatively a high proportion of the total cost of production. Moreover, employees on the front line in the service sector are in contact with the customer, and the customer satisfaction depends upon employee performance.

Banks delivers its service across the counter to the ultimate customer. The activities of banking industry are all about “relationship”. Hence, banking industry has to provide better services with a smile to the customers in order to cultivate and maintain long lasting relationship with their customers. Notwithstanding the level of technology, banking is primarily a labor intensive service sector. Hence it will not be possible for the banks to sustain effectiveness unless leadership requirement and human resource management is given prime importance because the technology is only an aid to human effort and not a substitution thereof. If the technology is the equalizer, then the human capital shall be the differential in future (Mangaleswaran, 2007).

The Human Resources are the most important element for the progress of banking. Though technology can replace manual intervention, the thinking process is the exclusive preserve of human beings. With changing times and technology, banks would require employees with special skills in the areas of risk management, treasury, product development, customer relationship management and IT services. The technology can improve speed and quality of performance, but at the same time it can also unleash the risk factor. It is rightly said: “We are trying to apply third generation ideas on second generation organizations which are unfortunately run by first generation managers” (Sangwan, 2005).

It is a recognized fact that leadership occupies a unique and sensitive position in the banking sector; no meaningful change is possible without the involvement of their employees. Therefore, if banks have to undertake any significant changes to adapt themselves to new competitive environment, one of the most crucial initiatives lie in organizing and preparing its HR to the requirement of competitive banking. Human asset being an intellectual asset, the new source of competitive advantage can be defined as the sum total of knowledge, skills and competencies that an organization possesses. The fundamental principle of human resource management is to

treat people as a valuable asset. Good HRM is to attract the best talent, retain and motivate them (Sangwan, 2005).

The performance of the banks (as any other service sector organization) highly depends on their Leadership and HR. Hence, efficient and effective leader and HR practices of selecting the right people, who would maximize value and minimize cost within the organization (Nanayakkara, 1999), remains a challenging task.

The core function of HRD in the banking industry is to facilitate performance improvement, measured not only in terms of financial indicators of operational efficiency but also in terms of the quality of financial services provided. Factors like skills, attitudes and knowledge of the human capital play a crucial role in determining the competitiveness of the financial sector. The quality of HR indicates the ability of banks to deliver value to customers.

Capital and technology are replicable but not the human capital, which needs to be valued as a highly valuable resource for achieving that competitive edge. The primary emphasis needs to be on integrating human resource management strategies with the business strategy. HRM strategies include managing change, creating commitment, achieving flexibility and improving teamwork. The other processes representing the overt aspects of HRM, viz. recruitment, placement, performance management, are complementary (Kamesam, 2004).

Only one asset holds the power to differentiate banks in the competitive environment i.e., a dedicated, productive and innovative leadership. No longer can an organization afford to underestimate and demoralize their leaders to succeed at the expense of those who help and make success possible. Respect human dignity and have faith in every leader as well as employee as resource and potential asset while achieving organizational objectives efficiently. In short, banks have to invest in their leadership and work force through proactive HR practices.

**The Significance of Prominent Leadership and HR Practices in Banking Sector:**

Most banks consider 'Leadership' as key to long term success of their organizations. They also consider this as a major area of concern in the current context. Weaknesses in developing leaders lie in the existing processes of appraisal, nebulous training and grooming and skewed exposures. The methodology used by most of the banks in developing senior and top management is through sporadic and adhoc exposure to different kinds of management development programs in India and abroad. Multiple exposures to similar kind of programs do not necessarily add value. There is absence of a well-knit and comprehensive strategy to develop people to take up strategic positions in senior and top management. Further, in most of the banks there is no strategic framework for identifying and grooming leaders.

Secondly, the success of today's Banking business will sparsely depend on the human resources of the organization at all levels. Organization should have its processes that it empowers and exploits the skills and attitudes of employees in this changing environment. HRD acquires more importance in service organization like Banks where Human Resource plays a crucial role. The creative abilities, capabilities and knowledge of Human Resource are significant of service organization, where the very nature of functioning needs all these qualities of employees.

The aspect of HRD also assumes importance in present day conditions in Banks where there is severe competition among them also as the spectrum of functions of these organizations are widening. The Banks in particular are entering into various innovative areas of services of their customers. This enlargement of jobs needs enhancement of capabilities and potentialities of employees. Improved performance of Bank through enhanced capabilities of its employees leads to the improved social image of the Bank. This in turn satisfies social needs of employees. So,

employees are to be given a chance to develop their capabilities like skills and knowledge through various means like career planning and growth, training, works itself etc. Enhance of capabilities leads to better performance of the job.

Human resource development in the Banking industry is a process by which the employees of the Bank are helped in a continuous planned way to acquire or sharpen capabilities enquired to perform various functions associated with their present or expected future roles; develop their general capabilities and discover and exploit their own inner potentials for organizational development purposes; and develop the culture in which supervisor-subordinate relationships, team work and collaboration among sub-units are strong and contribute to the professional well-being, motivation, and pride of employees. HRD is important because it refers to all those educational, training and developmental activities conducted by a business organization to improve human performance. It is a broad term, which includes all activities designed to get employees to work more effectively within a given organization.

### **The Issues Regarding Leadership and HR Environment in PSBs**

As far as PSBs are concerned, there are number of issues prevailing in the sector. Some of these issues are discussed as follows: The quick promotion system adopted currently to tide over the problem of finding successors to retiring top management levels without exposure to leadership grooming is far from adequate in meeting the new challenges. Quick promotions without well rounded exposures do not produce leaders for strategic roles. The tendency to 'fill the position' will not serve the purpose. Class room training and attending a few seminars on leadership would not be good enough to produce leaders. Many highly coordinated and focused efforts are required to help the individual executive in his aspiration for personal transformation, coupled

with mentoring initiatives on an ongoing basis and project responsibility in tune with the individual bank's business priorities and the like.

Though some of the major banks have initiated some steps to identify executives and groom them for leadership position through a comprehensive strategy with the help of outside consultants, such efforts need to be sustained on an ongoing basis.

In the final analysis, biggest risk to a company and its shareholders is weak leadership pipeline and gap in the capability levels required to build the organization and deliver robust shareholder returns. HR function can play a strong role in helping define the appropriate leadership competencies for the organization, designing selection and assessment methods around these competencies and creating frameworks or mechanisms whereby high potential talent can be identified and nurtured and a healthy pipeline created. The Committee strongly recommends that PSBs follow processes of both individual and team development when focusing on succession planning. This will help ensure that banks build not just one leader but key abilities are developed in a number of people and teams simultaneously.

Banks have hardly built databases to capture the training needs of employees and rarely use any IT based decision support system to select right type of trainees. Traditionally, training has been a neglected function in banks. After implementing VRS, many banks have even closed down their training institutions to meet the day to day need of line functions.

A system for objective measurement of individual performance is not established. Hence, the performance evaluation of each individual on objective basis is not possible. Linkages of performance and rewards/incentives are not established. Though the system of employee appraisal has been in vogue in banks, it has not helped in developing an organization wide 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 need to be scientifically assessed and objectively linked with organizational goals so that the performance of the employees can be assessed on critical parameters. Similarly, any organization to be successful, there should be recognition of key performers and motivation through job enrichment. Rewards like promotions should be based only on performance and merit. Rigidity in the system of rewards prevails in the banks and promotions have no linkages with performance. The emerging model of banking would lead to some of the major paradigm shifts in core values. Man power planning, recruitment, training and development, talent retention, succession planning, performance compensation, reward and punishment mechanisms are to be reviewed/ institutionalized.

PSBs need to develop 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 organizational needs. Greater customer centric focus calls for greater employee involvement and motivation and change in mindset. Long used to working in a protected environment, employees widely perceived to have low motivation and low involvement, and the lack of distinction between high performers and poor performers with no reward and punishment system has only added to the lethargy. Banks need to build a service culture using technology in a customer friendly manner. This requires reorienting HRD strategies in banks on an urgent basis and banks need to emphasize right size, right skills and right attitude. The entire gamut of public sector rules like reservations in recruitments, promotions and unionization have left us with lots of "Humans" but not adequate 'Resources. Long used to

working in a protected environment, staffs in public sector banks are widely perceived to have low motivation and low involvement, and the lack of distinction between high performers and poor performers with no reward and punishment system has only added to the lethargy".

HRM practices and policies in Indian banks have been evolved primarily through reactive processes, and were the matters of bilateral agreements between the managements and the representative Unions. The post-nationalization period had witnessed a phenomenal growth in the number of trade unions, encouraged by the management's continued patronage by way of leaving all matters. Till the advent of financial sector reforms the concept of "human" as an "asset" was not assigned much importance and the role of HRM was mainly focused towards maintenance of personnel, and thus were not attuned to the emerging business priorities. PSBs need to relook at these issues and start taking measures to overcome these challenges in term of providing world-class services to its stakeholders.

### **The Future Perspective**

Consequently, PSBs which are a dominating force in the Indian banking system have lacked a proactive HR environment and capable leadership. However, much has changed with the opening of other sectors and increased competition from newer banks in the system.

Banks are increasingly beginning to recognize leadership and Human resources as a possible area of core competence, and seek to pursue and retain the best talent in the industry. There is a realization that skill development is extremely important for staff retention as well as the quality of manpower and continuous professional learning. Banks are keen to tie up with external training agencies for in-house training. Some have even roped in top universities and business schools to help them in their initiative, while others have their own staff colleges for training employees.

So far accumulating the suggestions are concerned, leadership competency should be developed through a planned exposure to different jobs, tracking performance, training and development at different stages of career and grooming through management and leadership courses and through project work. Focus should be on developing high potential individuals.

It is suggested that institutional training should provide effective skills to employee. Employees should be motivated to utilize the material and libraries so that competency gap would be reduced.

Mostly promotions are given in accordance with the performance of the job. It is suggested that employee potential should be evaluated based on objective assessment but not on favoritism. Transparency in evaluation and promotion policy also suggested.

Transfers in PSBs are according to the policy of Bank. They have fixed time. The employees of PSBs have same perception toward transfer system. They want more improvement in the system. It is suggested that there should be fair transfer policy. They introduce transfer as a leaving tool. Some additional benefits can be given to the employees along with transfer who act as motivational factor.

Potential identification should be done through modern HRD tools like Assessment Centre and 360 ° feedbacks to identify talent for various roles. Eventually this should become part of leadership development process and managed by BLDI. BLDI or any other institution which facilities this for PSBs should also help them develop mentors to guide, coach and promote internal talent.

On appointment, EDs and CMDs should be inducted into the role through a carefully designed program of approximately a week's duration. This should socialize the person into the role and prepare them to plan their work. They should seek 360 ° feedbacks at intervals of the initial six

months, end of the first year and thereafter, annually. Each ED and CMD should have a mentor from the industry leaders, to work with him.

PSBs should increase direct recruitment quota in clerical and officer cadres. It is also important to increase minimum qualification required for recruitment in clerical and subordinate cadre.

PSBs should consider recruitment of skilled man power directly from the market.

Accommodating additional personnel with technical and professional skills would balance the otherwise high age profile of the banking personnel.

PSBs should conduct HRD audit in vital areas like training, compensation, recruitment and promotion and there has to be faster promotions for meritorious officers and reducing the span to

reach top management level from 25 years to 20 years. Merit and performance based promotions

Recognition of employees performing well will send right signals and boost morale of the work force. There is an urgent need to bring down the waiting period in each scale. Suitable fast track promotion policies for skilled specialized officers and performing general officers should be evolved.

Performance based reward system should be developed. For retaining talent banks have to pay market rates for professionals with incentives like performance bonus and stock options.

Performance linked reward system will weed out excessive manpower and attract fresh talent.

There is a wide gap between the remuneration provided by PSBs and other private /foreign banks and the difference needs to be minimized.

Identifying competencies on an organizational basis will provide a means for pinpointing the most critical competencies for the banks success. Training and retaining the existing and future man power to cope with the changes and challenges of future is significant for PSBs,

furthermore, filling up existing skill gaps at middle level and higher level employees through skill enhancement programs.

PSBs should keep employees skills updated to match present day requirements enhances productivity There should be proactive steps in this regard and it should involve proper identification of training needs and post-training placements. Training centers should introduce and initiate newer training programs in conformity with the changed scenario and demand from the customers.

It is very crucial for PSBs to transform staff from being "Transaction processors" to business professionals. It should develop strong business orientation among employees through sales culture and customer centric approach. Personnel policies of the bank should enable their employees imbibing strong sense of team work so as to reap rich and regular dividends and to ensure job satisfaction would enable banks to retain their skilled employees

### **Conclusion**

Indian commercial Banks have been using human resource practices to gain competitive advantage. Both public and commercial banks have planned career planning Appraisal system. In private sector, Bank employee can progress his/her performance persay, but in public sector he/she can get promotion as per policy. Some flexibility is there in transfer system. Meeting held frequently in which they invite staff suggestion so staff are more satisfied.

It is suggested that the PSBs may introduce "open appraisal system" wherein the marks awarded to the reviewer is disclosed. In many organizations open appraisal systems are working. There may be open discussion between manager & employee of that employee would know weak areas of performance and them to develop and perform well.

The predicament of the banks in the developed countries owing to excessive leverage and lax regulatory system has time and again been compared with somewhat unscathed Indian Banking Sector. In this paper an attempt has been made to understand the general sentiments with regards to the performance, the challenges and the opportunities ahead for the Indian Banking Sector.

The future would require banks to have increased business agility and operational efficiency, which makes the implementation of Core Banking Systems (CBS) by banks increasingly important. For the development and survival, change is the only constant feature in this dynamic world and banking is not an exception.

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