

Technical Report



**INDIAN INSTITUTE OF MANAGEMENT
AHMEDABAD**

**PERSONNEL MANAGEMENT FOR
RURAL BANKING**

by
N R Sheth
B G Shah

July 1974

T.R.No.36

1974

**Indian Institute of Management
Ahmedabad**

Technical Report

Title of the report .. PERSONNEL MANAGEMENT FOR RURAL BANKING

Name of the Author ... Profs. K.R. Sheth & B.G. Shah

Under which area do you like to be classified? .. Organizational Behaviour Area

ABSTRACT (within 250 words)

This paper presents an analysis of the problem of adjustment to the rural environment among the branch managers in commercial banks working in rural areas in consequence of the lead bank scheme. The analysis is based on data collected during an exploratory study of the lead bank scheme in a district in Gujarat State. The data suggest that urban-oriented managers find it difficult to adjust themselves to the realities of living and banking in villages. This difficulty arises mainly from the cultural gap between urban and rural social life as well as the social commitments and aspirations of the managers and their families. Although the problem of adjustment is less acute among those managers who have previous exposure to rural life, they also aspire to move to urban areas and become part of the urban culture. On the basis of these findings, it is suggested that it would be useful to create in the rural areas urban facilities such as good schools and cinema houses. It is also suggested that the educated members of the rural branch managers' families may be trained and motivated to undertake welfare and developmental activities in villages. These suggestions imply that bank managements may need to consider a person's family as a unit for planning and decision making in the area of personnel management.

Please indicate restrictions if any that the author wishes to place upon this note

.....
Date .. 24 July 1974.

.....
Signature of the Author *N R Sheth* on behalf of
N R Sheth
and
B G Shah

PERSONNEL MANAGEMENT FOR RURAL BANKING

N R SHETH
B G SHAH

Many questions and doubts have been raised from time to time regarding the outcome of the "lead bank" scheme launched by the Reserve Bank of India to promote the developmental objectives such as agricultural growth and greater employment opportunities in rural areas. The specific task assigned to the banks in relation to the scheme is stated as "surveying potential for banking development, extending branch banking after identifying growth centres, extending credit facilities after locating viable and potentially viable proposals and mobilising deposits out of rising levels of income".¹ However, the unsatisfactory performance of the banks regarding these tasks has been frequently acknowledged by representatives of government, as well as banking organizations and experts,² apart from the popular discontent one can easily notice among the potential users of the new banking facilities. The problem is known to lie partly in the strategy recommended by the Reserve Bank on the choice of a lead district and implementation of the scheme by the banks participating in it³. Another major handicap in the success of the scheme is believed to be provided by the traditional forms of banking in rural India, based on personal relationships rather than institutionalized transactions. A third important impediment is the relatively less educated villagers' incapacity to follow the procedural sophistication required for modern banking.

One major aspect of the implementation of plans on the lead bank scheme relates to the problems of manning the rural branches of a bank with a suitable cadre of managers. Obviously, the major responsibility of the success or failure of the scheme has to be borne by people who are entrusted with the task of developing modern banking institutions in rural areas. These people's performance of their tasks would depend mainly on three conditions. In the first place, it is necessary for the bank to find sufficient manpower to cope with the demands of rapid expansion envisaged in the scheme. Secondly, the people expected to work as branch managers in rural areas need to be adequately trained for handling the specific problems of rural banking, including mobilisation of available funds among the relatively illiterate masses and understanding the financial needs of small farmers and traders. Thirdly, urban oriented officers called upon to manage the rural branches as well as the families of such officers are likely to face problems of adjustment to the strange environment of rural areas in view of the urban life style to which they are accustomed and their professional and social aspirations.

There seems to be a degree of awareness of the problems mentioned above among policy makers and administrators concerned with the lead bank scheme. For instance, the report of the All India Rural Credit Review Committee (AIRCRC) appointed by the Reserve Bank of India mentioned the difficulties regarding the manning of the rural branches especially in view of the lack of civic and social facilities in villages⁴. Similarly, in an article published by the State Bank of India, its Chairman referred to the unbearable strains placed by the rural expansion programme on manpower resources⁵. He also recognised the somewhat conflicting demands on personnel skills in rural banking, resulting from the small size of banking operations on the one hand, and the high order of job requirements for rural financing on the other. However, judging from the little evidence of thinking and planning on the subject, it appears that the personnel aspects of the lead bank scheme is handled with less concern and earnestness than it deserves. The Banking Commission, for instance, pointed out the significance of "a personal feel for local problems and deposit potential" required for rural banking and mentioned that managerial resources might influence performance⁶, but paid little attention to the relative personnel policies for management of rural banks. Both the Banking Commission⁷ and AIRCRC⁸ expressed the hope that the problem of adjustment of bank personnel to rural areas would be solved with the development of civic facilities in villages. A common suggestion made by policy makers and experts to handle the difficulties regarding bank managers' adjustment to rural environment is that banks should select people with rural orientation and experience of rural institutions to be placed in charge of rural branches. AIRCRC also suggested that banks should make it compulsory for new recruits to serve in rural branches for a prescribed period⁹. In a study of some rural branch officers, Varde has pointed out that rural branches manned by older managers were less efficient than those manned by younger managers. Accordingly Varde has suggested a group approach to the management of rural banks¹⁰. This approach implies that individual rural branches may be manned by junior officers and a viable group of such branch managers may be guided and motivated by a relatively more experienced and skilled group manager presumably located in an urban centre. Incidentally, this proposal has significance also in terms of the economy of banking operations in rural areas.

On the face of it, the suggestion that rural branches should be managed by young officers with rural background appears as an effective solution of the personnel problems inherent in the lead bank scheme. However, this suggestion is apparently based on a set of assumptions about the effectiveness of young and rural-oriented bank executives to handle the special problems of banking in villages. One such assumption

is that the objectives of rural banking can be fulfilled by compelling young officers to spend the initial period of their professional career in rural branches. It is also assumed that the values and aspirations of executives with rural background are substantially different from those of people born and brought up in urban areas. Unfortunately we have as yet little concrete detail to make any significant observations or generalization on the subject, although such observations are of crucial importance for an adequate understanding and decision making regarding the personnel problem underlying the lead bank scheme.

In this context, we wish to present here our analysis of the data we collected during an exploratory study of the lead bank scheme¹². We hypothesised that a person entrusted with the task of managing a rural branch of a bank would be able to fulfil his responsibility to the extent that he could adjust himself with the social and physical environment of the rural society and understand the traditional practices regarding saving and borrowing among his potential constituents. If a branch manager or an officer work as a rural banker without any exposure to the rural social, economic and political environment he would find himself maladjusted both at work and in life and this might influence his performance as a banker. We realize that we have no data to judge the relative success of our respondents according to any measurable criteria of performance of a rural banker under the lead bank scheme. We are also aware that there are several other variables that might influence the performance of a rural bank manager, such as his personality characteristics and perhaps more importantly, his professional competence as a bank manager. However a man's personality and competence are likely to be influenced by the economic and cultural environment within which he works and lives.

For our study, we chose a district which was relatively backward in the economic sense and largely inhabited by tribal groups and lower castes known to be living at a modest level of cultural acceptability and social affluence. Our main consideration in the choice of this district was that its social and economic backwardness would help us to understand the personnel problem in the context of an area needing special attention from a lead bank. We shall use the pseudonyms "Capital" and "Riverside" for the bank and the district respectively chosen for the study.

Capital was assigned Riverside District as a lead bank district in 1970. By the middle of 1972 the bank had opened 14 branches in the various small towns and villages in the district, apart from a main branch in a large town serving as a district headquarters. Only three of the fourteen branches in the district were in urban or semi-urban centres (with a population of at least 10,000 according to the criteria laid down by the Reserve Bank), providing a trading base for agricultural produce of the neighbouring villages. The rest of the branches were

in villages. The villages chosen by the bank were smaller centres of trade or handicrafts. All these villages possessed some basic urban facilities such as post office, electricity and medical services. Four of the villages were a taluk (Sub-district) headquarters and hence contained the taluka-level government offices.

As we have mentioned earlier our study was essentially exploratory. We wanted to find out the social backgrounds, the work experiences and the social and cultural aspirations of the officers working in the branches of the bank in Riverside district. We also wanted to understand the personal and social problems faced by these officers and the extent to which these difficulties affected their work as branch officers. Moreover, we wanted to understand the commitments of these officers to the communities within which they worked. We believed that such an explorative study would help us in testing the hypothesis regarding the personal problem of rural banks as mentioned above and possibly lead us to a larger study on the issues involved. With this objective in mind, we interviewed fourteen officers working as managers or officers in the branches of the bank in the district. We shall present our data in the following paragraphs and then draw some relevant conclusions from our observations. We shall also venture into some tentative recommendations emerging from our analysis in the hope that such recommendations would serve as a useful source of discussion of the personnel policies regarding the lead bank scheme.

Background Data : Eleven of the fourteen officers we interviewed were in the age group of 30-35 and only three were over 35. As regards experience in the bank three had worked for less than ten years and the rest had an experience of over 10 years (average experience was roughly 13 years). Eight of the respondents were matriculates while the others were graduates, one of whom also possessed professional banking qualification (CAIIB). Eight of the officers were promoted from clerical positions within a period of one year preceding our interview with them. Only six had worked as officers for over a year, three of them were officers for over three years. Three of the officers were natives of either villages or small towns, two came from large towns (with population in the neighbourhood of fifty thousand). Four of the officers were permanent inhabitants of a metropolitan city. Their acquaintance with rural life began only when they were transferred from the city to work as branch managers in the Riverside district. Five of the officers had mixed experience of rural as well as urban living as they were either educated or worked in large towns.

Manning Rural Branches :

As in other cases of implementation of the lead bank scheme, Capital had to plan for branch expansion according to the directive

from the government and the Reserve Bank of India, soon after nationalization. These plans involved a sudden and unprecedented growth in operations, the bulk of which meant opening rural branches without an adequate base of relevant information and experience among the concerned people. Hence the bank had little time to plan the manpower as well as other resources for the performance of the new task. The bank management had made an agreement with the Officers Association, providing for a mixed weightage to be given to seniority and merit as criteria for promotions. Accordingly, those employees who became eligible for promotion as branch officers at the incorporation of the lead bank scheme in Riverside district were transferred from the towns and cities where they worked. Most of our respondents who were transferred to villages from large towns and cities mentioned that they were reluctant to be posted as officers in the rural areas. The bank management understood the urbanites' reluctance to go to villages and hence they were given an informal assurance they would be transferred back to urban branches as soon as openings arose for them. It was understood that a person transferred as a rural branch manager would not have to spend more than two or three years in the village.

Problems of Adjustment :

All our informants mentioned that they were not given any formal training or informal orientation to handle problems of rural banking before being posted as branch officers. Most officers who had earlier lived or worked in rural areas did not find much difficulty in making the initial adjustments to the new situation. However, the urban-oriented officers clearly expressed "the fear of the unknown" during the initial period of the posting. In the first place, some of them encountered the problem of acquiring suitable accommodation. They were used to the basic physical amenities such as furniture in the house, electricity, tap water, the cinema and better-quality education for the children. Most of our respondents told us stories of the initial shock they suffered upon their arrival in the new place. One officer, for instance, woefully described to us how he found it impossible to sleep on the floor in a shabby house that was available to him on rent. For nearly four months he went to his office at night and slept on the writing tables available in the office. The officers also felt harrassed about the non-availability of things such as vegetables and milk of good quality.

Those officers who came from rural environment had not much difficulty in making this initial adjustment. In particular, those whose wives were only moderately educated could establish social contact with other families in their neighbourhood without much difficulty. However the urban-based officers complained of serious domestic problems arising from lack of desired company for their educated wives and children whose personal and social habits (manner of speech, visiting neighbours, children's playing needs etc.) were significantly different from the corresponding habits of the villagers.

On top of these domestic problems, the officers were worried during office hours as most of them had no exposure to the problems of dealing with rural clients. In this matter, even those who came from rural background were quite confused in the beginning as they did not know how to initiate banking in the new place. Some of them complained that they had hardly any idea about the responsibility of a branch manager when they took over this job. Two or three of the officers also mentioned to us that they were not clear about the type of documents required to be filled in while applying for advances. Some officers began with the understanding that they needed to find out the strength of their potential competitors in the village, such as local traders, and unofficial financiers, cooperative banks, post office banks etc. They therefore tried to find out the banking techniques and level of performance achieved by these potential competitors by using informal channels and friendship with the local officers, landlords or businessmen. A few officers told us that they could find time to tour the surrounding villages to canvass for the new facility among the people. However, most of them said that the routine administrative and correspondence work was so heavy that they had no time or energy left for promotional work among people in the neighbourhood.

The majority of our respondents expressed anxiety about the security of advances made to the villagers. It was admitted by these officers that they valued the security aspect of their banking job much more than the promotional objectives of rural banking laid down by the management. A few officers narrated to us some unpleasant experiences they had already encountered with their constituents during the short period of their career as branch managers. In one case, for instance, a local trader managed to obtain advances from the bank in the names of farmers and used the money for his personal gain. In one or two cases where such requests were turned down the local bosses wrote to the bank's head office complaining that the branch manager was unwilling to help the needy people in the village. In another case, some young members of a tribal community who were reputed for their ability to blackmail and murder, others for selfish purposes approached a branch manager in their neighbourhood and tried to secure loans in devious ways. Such experiences aggravated the problems of maladjustments with the rural life experienced by the branch officers. Some of them frankly admitted that they looked upon their current posting as branch managers as a form of punishment by the management and wanted to get out of such mess as soon as they could manage it. One of the branch managers who had attracted exceedingly good business within a year or so of his posting in a village told us that his good performance as manager was likely to thwart his desire to go to an urban branch, as his regional manager wanted him to stay in the village for a longer time and continue his good performance.

With a note of cynicism in his tone, he said that he had decided to discontinue the banking efforts he had made lately as he had no intention to stick to a rural branch for a long time.

One of the most difficult social problems for the rural branch officer with urban background is the lack of recreation facilities in the village. As is well known, the most common and frequent source of entertainment for urban people comparable to these officers is the cinema. The non-availability of this mode of recreation by most of / was the respondents. In fact we found that the officers were looking mentioned forward to the weekend when they could take their families to the nearest town and see a movie, apart from doing the necessary shopping. Through our informal observations we noticed that the officers in each branch had developed a habit of going to a relatively larger centre for the weekend. Thus a man working in a small village went to a small town : a man working in a small town went to the district headquarters and the officer working in the district headquarters had a tendency to visit a metropolitan city which was nearly two hundred kilometres away.

In the larger villages and small towns the bank officers had some recreational opportunities such as informal social get-togethers with other local officers and their families. In one case a branch manager told us that he had little difficulty in adjusting himself to the rural environment as, in any case, he had developed a deep interest in reading which kept him occupied during much of his leisure time. However, it is interesting to note that in all such cases the officer eventually mentioned to us that they wanted to quit the village and go to a town as soon as possible. In some cases, this aspiration to go to an urban place arose from the fact that the officers had left part of their immediate families (such as school going children, wife, aged parents) in view of the children's educational needs or parent's unwillingness to leave their homes. Half of our respondents told us clearly that they did not mind even an apparent demotion (e.g. a branch manager being posted as accountant) provided they were transferred to an urban centre or some place near their home town. In all such cases the managers were specially concerned about the fact that their children would not get education of good quality in villages as they might get in towns.

We examined whether the problems of adjustment to rural environment among the officers with rural background were different in their degree and severity as compared to similar problems faced by urban based officers. We observed that while the rural-oriented officers found it relatively easy to understand and accept the rural culture, their status as bank officers had created in them almost the same degree of preference for urban culture as we found among the urban-oriented officers. The educational background of the rural-oriented

officers and their professional status led them to look upon themselves as socially and culturally superior to other villagers. Hence they felt the need to identify themselves more with the urban elite than with the villagers. Moreover, these officers were as concerned about their children's educational needs as the urban-oriented officers. Accordingly, they were all equally anxious to move to urban branches.

We tried to find whether, for the rural bank managers, there were any factors to compensate for the problems of physical, social and professional maladjustment as described above. One may expect a bank manager or officer in a rural area to enjoy high social status among the people around him. In our type, of society which is relatively more status-bound, one may also expect bank officers to receive some tangible rewards from the village community, such as petty gifts and domestic help. On the other hand, the same person working on a similar assignment in a town or city would hardly attract social attention as he is just one among a large number of people in his socio-economic category. During our field work we noticed the special status and respect enjoyed by the rural bank officers and occasionally one observed a sense of satisfaction and fulfilment on the faces of these officers. However when we raised this matter during our interviews with the officers, almost everyone of our respondents told us that the status and respect they commanded in the village were a very poor and inadequate compensation for the urban amenities and values they missed. In this context also some officers expressed the fear that their wives and children might acquire the rural patterns of living and speaking, with the result that their peers in the town might frown upon them.

In general, the officers were quite perplexed about the objectives of rural banking and the realities of Indian rural life. Their confusion was reinforced by the absence of adequate awareness of reorientation to rural life among those officers who came from urban areas.

Conclusions :

The data at our disposal presented above lead us to a quite pessimistic conclusion about the problem of adjustment of bank executives to the rural areas in which they are expected to work in order to fulfil the objectives of rural development-oriented banking. This problem of course is not peculiar to bank executives. Similar problems arise with regard to officials employed in government departments such as district administration, police, judiciary, railways and public works. We should however remember that this problem of adjustment has a special significance in relation to rural banking as the lack of involvement on the part of bank personnel may potentially lead to inaction or wrong action in the

field of financial transactions that could have major consequences for the entire programme of rural economic and social development. As we have mentioned earlier, we do not have adequate data to relate the involvement of bank managers in their jobs to their measurable performance as bankers in terms of the criteria laid down by the management. However, we would like to emphasize that such involvement of bank executive should be treated as a basic prerequisite of rural banking. Perhaps the banks participating in the lead bank scheme may have to evolve special concepts of rural banking in view of the social economic and educational level of the people concerned. In view of these concepts and a matching strategy for promotion of rural banking, it is essential for rural branch managers to be specially trained for handling the appropriate banking procedures as well as to understand the nature of the community with which they have to deal as agents of economic development and social change.

The special training necessary for rural banking cannot be planned and implemented overnight. The need for such training has to be based on an intensive as well as extensive understanding of the rural community in the context of rural banking. While there are a large number of studies of Indian village communities as well as the wide variety of financial institutions obtaining in the countryside, there has been little effort so far to understand rural banking as an integrated concept and strategy for national development.

On the other hand, the problems of adjustment of bank managers to rural communities are likely to remain as long as the social, cultural and economic gap between urban and rural communities continues. This problem has therefore to be dealt with separately from the problem of training needs of bank executives for rural jobs. The main question here is : how does one create a cadre of bank executives who would want to devote their banking skills and professional aspirations to the task of developmental banking in villages? At the present state of our information we believe that the strategy of treating rural postings of managers as a necessary evil and transferring rural bank executives to urban centres after a short spell of work in a village may help the management to please their officers in the short run, but it is found to create an attitude of transitoriness and hence escapism among those who know that they have to "suffer" in a rural branch for some time. Such an attitude towards rural banking is hardly conducive to the achievement to its stated objectives. We should therefore recognise that the main factor of maladjustment of the executives to the rural environment is lack of adequate physical and social amenities. While it is obviously unrealistic to suggest that all villages where the lead bank scheme operates should be immediately converted into urban centres, it is necessary to grapple with this problem as a crucial aspect of personnel management in the banking industry.

Suggestions :

We would like to make a few concrete suggestions in this regard. In the first place, let us remember that the kind of problems of adjustment arising from lack of recreational and educational facilities experienced by bank managers are also experienced by many other executives engaged in the developmental tasks in rural areas. It would be worthwhile to consider the creation of certain common urban facilities such as schools providing high quality education, cinema houses and social clubs to cater to the people in a geographical region where the provision of such facilities might be economically and socially viable. For instance, one may plan a good school catering to the population of a large district. One socially desirable consequence of such common facilities would be the availability of the opportunity for educational progress among the local people in rural areas.

Secondly, the educated wives and other members of the families of the branch managers in the villages may be encouraged to serve the local community through organised welfare and developmental projects in the areas of social education, family planning, rural employment etc. In fact, if the increasing availability of educated people in the villages is properly channelized, it is likely to contribute to a comprehensive social and economic development of rural India. This would however require a concerted effort on the part of the new rural elite with the support of government and other public agencies such as nationalized banks.

The recommendations made above imply that the policies and programmes of personnel management vis-a-vis rural banking should be based on the acceptance of the whole family of an employee rather than the individual employee as a unit for planning and decision-making. Our limited information indicates that at present the emigration of the urban oriented people to rural areas for bank jobs is a socio-economic liability for the managers and consequently for the organizations employing them. With an imaginative approach to personnel management for rural banking, there is reason to believe that this liability could be turned into an asset.

R E F E R E N C E S

- 1 Report of the Banking Commission, Government of India, Delhi - 1972 - p.79
- 2 See, for instance, the article "Efficacy of Rural Branches - An Empirical Pilot Study". S.D.Varde, in Prajnan, Vol.II, No.2 - Arril-June 1973, pp. 187-203.
- 3 A candid analysis of the promise and performance regarding rural banking is made by B.G.Shah and K.Dinker Rao in a paper entitled "Branch Expansion" Since Nationalization Objectives and Achievements", which is under publication.
- 4 Report of the All India Rural Credit Review Committee, Reserve Bank of India, Bombay, 1969, p.946.
- 5 "Some Issues in Rural Banking", R.K.Talwar, State Bank of India Monethly Review, Vol.X, No.8, August 1971, pp.272-273.
- 6 Report of the Banking Commission, op.Cit. pp.82
- 7 Ibid p.83-84.
- 8 Report of the All India Rural Credit Review Committee, op.Cit. p.946.
- 9 Ibid.
- 10 "Efficacy of Rural Branches etc." op.Cit. pp. 197-198.
- 11 See Modernization and Urban-Rural Gap in India: An Analysis in Sociological Bulletin, Vol.XVIII, No.1, March 1969, pp.16-34.
- 12 The exploratory study mentioned here was made with the cooperation of one of the major commercial banks participating in the lead bank scheme. We are grateful to the management of the bank for the permission to make the study. We are much indebted to the managers and other staff at the district level for all the help and hospitality we received from them.

We gratefully acknowledge the collaboration we received from our colleague Dr.K.Dinker Rao who collected the data analysed in this paper.

* * * * *