



CHANGING ENVIRONMENT AND THE EMERGING CHALLENGES OF INDIAN BANKS IN GLOBALISATION OF INDIAN SCENARIO

Commerce

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ABSTRACT

Banking being an important segment of the tertiary sector occupies a pivotal place in the organized sector of the Indian money market. It has been playing significant role in the achievement of economic development. Being the major source of institutional finance, it plays a predominant role in all-round development of the country by ensuring the greater mobility of resources to meet the emerging needs of the economy. It has been acting as both the repository of community's savings and purveyor of credit for economic activity. The commercial Banking system in India has a significant role to play in the rapid growth of economy through planned efforts. The first five year plan emphasized the need that the banking system has to be fitted into the scheme of development to make the process of saving & their utilization economically productive and socially purposive. With the Nationalization of 14 Major Commercial banks in 1969 & 6 commercial Banks in 1980 & After financial reform in 1991. The Banking Sector reforms in India were initiated in 1992. The objectives of reforms were to strengthen the Indian banks, make them internationally competitive and encourage them to play an effective role in accelerating the process of growth. The reforms process also initiated measures for improving the productivity, efficiency and profitability of the banking system. It was also recognized that the Indian banking system should be placed on par with international standards in respect of capital adequacy and other prudential norms. The operational rigidities in credit delivery system were to be removed to ensure allocation efficiency and achievement of social objectives. It can be evidenced from the date, that the Banks achieved remarkable progress during the post-reforms period facing several new challenges like Information Technology, HR Diversity, Orientation of Trade Unions, New Value Employees, Quality Concerns and Customer Expectations, Strategic HRM, Internal Customer Orientation, Shared Vision, Employee Empowerment, Team Working, Learning organization, Competency Identification Through EDC, Employee Development Center (EDC), Sustaining the Initiatives, Excellence is a Journey Etc., The Government of India and Banking Authorities are keep in touch with emerging trends forever from time to time leads to the maximum extent of benefits to the prospective and interested parties.

KEYWORDS

source of institutional finance; Banking Sector reforms; Information Technology; HR Diversity; New Value Employees; Strategic HRM; Employee Empowerment; Employee Development Center (EDC)

INTRODUCTION

Banking being an important segment of the tertiary sector occupies a pivotal place in the organized sector of the Indian money market. It has been playing significant role in the achievement of economic development. Being the major source of institutional finance, it plays a predominant role in all-round development of the country by ensuring the greater mobility of resources to meet the emerging needs of the economy. It has been acting as both the repository of community's savings and purveyor of credit for economic activity.¹ By accepting the deposits and advancing loans of different types, banks are not only inculcating the saving habit, but are also facilitating the channelisation of surplus money into productive channels. The commercial banks by ensuring supply of right amount of credit to the small-scale industrial sector and agricultural sector have also been playing the role of prime mover in the process of India's economic development.² With the introduction of social control in 1967 enormous responsibilities are levied on the commercial banks. Nationalization of 14 major commercial banks in 1969 brought necessary changes in the profile of Indian Banking. Nationalization of commercial banks also brought a radical transformation in the lending policies pursued by the banks with a shift from security oriented lending to feasibility oriented lending. The success of the banker in the post-Nationalization era has been gauged not merely by the deposits mobilized and advances made by him, but on the basis of his contribution to country's economic development.⁶ These banks are further asked to open their gates to the millions of our people to improve their lot with the adequate credit support.⁷ Today, banks are required to achieve the twin objectives of achieving profit and contributing directly to the socio-economic development of the country by offering wide variety of services ranging from tribal development to export promotion and serving a wide spectrum of customers ranging from weaker sections to the corporate industrialists.⁸ The commercial banks in order to bring a sustained economic growth are asked to take up programs like credit authorization scheme, lead bank scheme, merchant banking, underwriting, investment consultancy, tax planning, mutual funds, lease finance, portfolio management, house finance, rehabilitation of sick industrial units and issue of credit cards, sponsoring Regional Rural Banks etc.⁹

COMMERCIAL BANKING SYSTEM IN INDIA – SCENARIO

The commercial Banking system in India has a significant role to play in the rapid growth of economy through planned efforts. The first five year plan emphasized the need that the banking system has to be fitted

into the scheme of development to make the process of saving & their utilization economically productive and socially purposive. The dimensional importance of banking system as a dynamic force of development started increasing over the successive five-year plans, progressive met and served better the needs of our developing economy in conformity with national policies priorities & objectives. With the Nationalization of 14 Major Commercial banks in 1969 & 6 commercial Banks in 1980 & After financial reform in 1991. It can be evidenced from the date, that the Banks achieved remarkable progress during the post-reforms period facing several new challenges.

A massive branch expansion was undertaken by the banks to increase banking access even to remote areas during Post-nationalization & pre-reform period. However in the post reform period, this process was slowed down in the name of consolidation. They have been providing gainful employment to the unemployed youth through various schemes. So, as to reducing income disparities in the country. The performance of commercial Banking system in respect of branch expansion, deposit mobilization, loans & advances, investments, profits, Manpower deployment, Non-performing Assets, lead bank scheme, sponsoring of regional rural banks., Population per office (in thousands), credit per office, deposits per office, advances to priority sectors, % of priority sector advances in total credit of commercial Banks, credit deposit ratio, investment deposit ratio, Cash deposit ratio etc., are significant.

BANKING SECTOR REFORMS IN INDIA AND ITS IMPACT ON BANKING SECTOR

The Banking Sector reforms in India were initiated in 1992. The objectives of reforms were to strengthen the Indian banks, make them internationally competitive and encourage them to play an effective role in accelerating the process of growth. The reforms process also initiated measures for improving the productivity, efficiency and profitability of the banking system. It was also recognized that the Indian banking system should be placed on par with international standards in respect of capital adequacy and other prudential norms. The operational rigidities in credit delivery system were to be removed to ensure allocation efficiency and achievement of social objectives.

• CHANGING ENVIRONMENT AND THE EMERGING CHALLENGES

Unprecedented changes have been taking place in the environment which are posing major challenges to Indian banks. Let us look at these aspects.

Information Technology:

The global emergence of Information Technology (IT) has now forced the Indian banks also to go for the same with greater intensity. For efficient internal management and better customer satisfaction computerization is becoming exigent. The bipartite agreement on computerization of October 23, 1993 prepared the ground work and now most of the banks are going ahead with the introduction of fully-computerized branches all over the country. To effectively introduce mechanization and computerization, a substantial degree of organizational preparedness is a prerequisite. This would involve structural and systemic changes. Superimposing IT on traditional structures and systems will stand in the way of developing an IT culture within, without which technology will not be able to assist in organizational effectiveness. Banks do not seem to have done this preliminary homework. For example, bank employees, as per the earlier agreement, are expected to work for six and a half hours on a working day. The introduction of computers has now reduced the work load. The daily balancing of books, which used to take hours after the normal customer time, now needs only the click of a key. As a result, on an average, the employees in the computerized branches finish their daily work in about two to two and a half hours earlier than usual. Interestingly, the 1993 agreement has indicated that individual banks are free to negotiate with their respective bank-level trade unions to arrive at settlements beyond what is agreed upon in the industry-level settlement⁴³. Only very few banks have taken advantage of this clause and have entered into separate agreement. By and large, the banking system operates within the purview of the 1993 settlement. To get the best out of the fast changing technology much greater and more intensive efforts are required both from management and trade unions.

HR Diversity:

Although human resource in banks is highly diverse in terms of its constitution such as gender, ethnicity, level of educational qualifications, social deprivation, etc., the industry has been taking a "strait-jacketed" approach in managing people. Standard rules and regulations emerging from industry and bank-level agreements may not provide sufficient motivation to get all the diverse groups to work cohesively and effectively. Besides, it can lead to an undesirable state of IR. For example, the socially disadvantaged group in banks, the SC / ST, have formed their own separate trade unions as they feel that the megatrade unions are unable to take care of their problems and issues. Other diverse groups may also follow suit. Such union formations can add further difficulties to IR management and operational efficiency of banks. It may be necessary in this context to look at the specific problems of the groups and evolve pertinent policies.

New Value Employees:

The profiles of employees who had joined banks from the mid-70s onwards are quite different from their counterparts who had joined the industry earlier. The new employee is better educated, has relatively less ideological commitment and is more career-oriented. On the other hand, they have no first-hand knowledge about the exploitative situations that prevailed in the past⁴⁴. All these factors place these employees in a very different framework. This new value employee seeks much more meaning from his work. These new value employees may not necessarily respond to the traditional systems of HR and IR management. Inappropriate policies to manage these employees can lead to uncomfortable situations in terms of performance effectiveness.

Orientation of Trade Unions:

It is significant to note that the trade unions are changing their orientations all over the world including banks. Probably they are responding to the changing environment. The studies indicate that attitudinal changes are taking place in the orientation of bank union leadership. There could be various reasons for this change in the mindset of the leaders. Suffice it to say that certain signals of change in orientations are visible amongst the leadership of trade unions.

Quality Concerns and Customer Expectations:

The concern for quality is now revolution realizing organizations the world over. In a highly competitive market, the cutting edge comes from quality and customer satisfaction. Banks in India basically performed through a supplier-led approach. In the past, banking service and the internal support systems to deliver these services were primarily based on convenience and availability of skills with in the banks. As a result of liberalization and the associated competition, banks, like other organizations, are forced to look at their activities *vis-à-vis* the competitor's capabilities. The increasing competition is offering better choices to the customers and their expectations are also on the increase. This state of affairs is forcing banks to study customer

needs and design and deliver better quality banking services and products. These concerns have been instrumental in encouraging some of the banks to go for quality certifications like ISO 9000. This is yet another challenge before banks.

Strategic HRM:

The Organization for Economic Cooperation and Development (OECD) had carried out a study in several banking and insurance companies in five OECD countries⁴⁵. This study concluded : "Successful organizations are those which recognize human resource management as a key corporate strategic issue rather than simply as an outcome of a strategic decision." In recent years, strategic management has evolved as an important dimension in organizational management. For effective performance, HR, management has to be directly linked to the strategic management of the organization and this strategic HRM, would then, be complementary to the business activities of the enterprise. The main difference between traditional HRM and strategic HRM is the extent to which human resource management is integrated with the strategic decision-making process that direct organizational efforts to cope with the environment. The strategic HRM perspective considers organizational employees as a strategic resource. Strategic HRM primarily deals with developing HR systems and practices, which will be in consonance with the changing business realities.

Strategic HRM gives meaning to the various HR activities, and this would establish a strong linkage between the business system and the people system. When this linkage is not sufficiently established, it can cause adverse effects on organizations. On the other hand, a balanced organization would have a proper mix of strategic HRM and business efforts. This is indicated in Diagram.

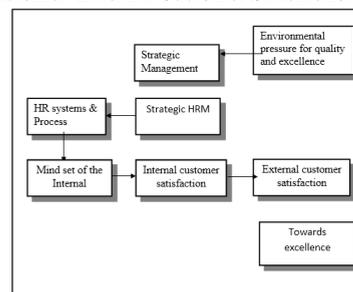
Internal Customer Orientation:

Performance excellence of bank organizations depends on customer 'delight' and customer 'surprise'. A delighted customer will not only return for continued business, but will also bring with him more customers. When the customer base increases and is sustained, one can say that the organization is moving in the direction of excellence. Satisfaction and delight of the ultimate customers (external customer) is a function of the satisfaction of yet another set of customer who are internal to the organization. These internal customers (employees) are the people who deliver the multifarious services to the external customers. The level of satisfaction of the internal customer, therefore, will decide the quality of services the external customers receive. One cannot expect excellent service from a dissatisfied internal customer. His / her frustration and dissatisfaction with work will obviously get reflected in the way he / she treats the customer. To enhance the level of satisfaction of the internal customer, therefore, a great deal of organizational efforts have to precede. This is depicted in Diagram.

Shared Vision:

The traditional view that "people respond positively only when their self-interests are involved" has been challenged and exposed by experiences of several organizations and results of research studies. In corporate parlance 'vision' is a familiar word. More often than not 'corporate vision' is usually associated with the top management or a select group of people and which is normally 'imposed' on the rest of the employees. For a vision to be truly effective and meaningful, it has to be shared by a majority of the organization's employees. Such a shared vision binds the employees, which, in turn, can produce greater results.

Diagram II
Internal Customer-External Customer Satisfaction Model



Employee Empowerment: Empowerment is the process of encouraging involvement of employees in the organizational activities. This view presupposes the belief that employees have inherent potential; that they are the primary resource for enhancing

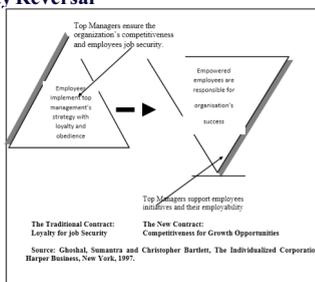
productivity and that organizations can unleash greater power to combat competition by energizing the 'critical mass' of employees. Effective and meaningful empowerment programs help the organization to unleash the human potential for growth and competitiveness. For empowerment programs to succeed, organizations have to deliberately make efforts to move from the traditional hierarchical orientation to networking. This is possible only when the managerial personnel at all levels, starting from the top, believe that their employees are powerful resources which can contribute to performance effectiveness. This will bring in a role-responsibility reversal process, and meaningful employee empowerment will take

- **Team Working:** As organizational complexity increases, it becomes imperative to look at issues and problems from diverse perspectives. Individual thinking and actions may not necessarily bring out the best solutions and results. What is required in the complex environment is to develop organizational synergy at all levels. This calls for team building. Working in teams will not only produce better results but will also cater to certain fundamental psychological needs such as identification, companionship, understanding and support. Satisfaction of these needs will facilitate greater involvement of employees in organizational efforts.
- **Learning organization:** In a dynamic environment it is important for organizations to continuously learn and adapt. A learning organization is the one, which is not only skilled at creating, acquiring and transferring knowledge but also at modifying its behaviour to reflect new knowledge and insights. Organizations that will truly excel in the future will be the ones that discover how to tap people's commitment and capacity to learn at all levels in an organization. On the other hand, if the organization has a 'learning disability', it will gradually work towards self-extinction⁴⁶. Today, banks like any other organization cannot remain complacent. The learning spirit has to be developed. It may be construed that a learning organization means a lot of formal training. On the contrary, a learning organization means that every unit and individual levels a problem solving perspective is developed. There is introspection, analysis and openness to accept failures. There has to be readiness to unlearn, relearn and adapt. Only search continuous learning organizations can become vibrant and competent to deal with the external environment effectively.
- **Competency Identification Through EDC:** Organization the world-over have realized that in responding to environmental changes the speed with which the response is made is crucial. Conventionally, changes in the systems are brought about with relative speed and ease, but effecting the changes in human resource is difficult and time consuming. In such circumstances, organizations have preferred to get 'tailor-made' human resource from the market in terms of skills and knowledge.

In this connection Employee Development Center (EDC) is fast emerging as an intervention to create the competent database for immediate as well as future developmental uses. It is well accepted that performance appraisal system reveals competencies that are specific to a given job, but not all the capabilities that the individuals possess.

EDC, therefore helps to draw up the competency profiles of employees, which can be used for a number of meaningful HR interventions like placement, promotion and training. If professionally carried out, EDC can be a non-threatening system, which can effectively assist both the organization and the individuals. In India Ballapur industries Ltd., Siemens India Ltd., ICICI Ltd., etc are currently using the EDC approach.

Diagram III
Role-Responsibility Reversal



• **Sustaining the Initiatives:**

As mentioned earlier, it is probably relatively easier to set up a new HR system or copy it from else where. The most important task is sustaining these efforts. Looking at the experiences of Indian banks, it can be observed that at different stages, banks adopted various HR systems with vigour and enthusiasm. And after a lapse of time, these became rituals or defunct. To clear examples are quality circles and branch meetings. Most banks during the 80's started implementing these ideas. In all banks, expect a few, these have now become extinct. An analysis of the reasons for this shows that these ideas were initiated by some one at some time. After he / she left that position, the ideas either became rituals or they ceased to exist.

To derive continued benefit of effective HR systems and processes there is an imperative need to institutionalize the HR efforts. Institutionalisation on the other hand, requires, internalisation. A large number of people with in the organization needs to be brought in line with the HR efforts.

The Khan working Group on universal Banking recently recommended the induction of HRD professionals in banks. Although bringing HR professionals from out side may be a good idea, the implications of this experiment has to be seriously considered. Are the banks in a position to offer competitive compensation packages to these professionals? What will be their career path in the banks.? The banks past experiences of induction personnel specialists has not been very encouraging. Their career paths met with dead ends at the middle management level, if they had not picked up banking skills. The initiatives taken by these specialists quite often received 'cold' responses from the higher –ups in the functional hierarchy who are sometimes unable to understand the concepts, relevance and intended impact. Secondly, it also needs to be viewed that nothing forbids any operational manager from becoming an effective HR functionary provided she / she is equipped with required fundamental knowledge, skills and attitudes. Banks can identify senior executives, say in Scale V or VI, well in advance, and groom them for the position by exposing them to HR concepts and practices thoroughly before placing them in-charge of HR as general managers. Obviously this calls for proper career path and succession planing.

• **Excellence is a Journey**

Almost every manager at some forum or other quotes: "excellent is not a destination but a journey". A journey implies alertness and forward movement. As environmental changes are moving at an accelerated pace, excellent organizations will have to enhance their capabilities to adapt and cope with these changes on a continuous basis. If the organization desires to keep a steady pace in this journey, it will necessarily have to continually examine its HR systems and their sustainability. Organizations of the future which strive to be on the path of excellence have to therefore accept the inevitable criticality of the human factor and initiate appropriate actions.

The new approach to HR management should be able to replace the usual "Economic Contract" that organizations enter in to with their employees, with a new 'psychological contract'. Psychological contract provides the basis for organizations to accept the reality on the one hand that its employees have great potential to contribute and employees, on the other hand to believe that their organization is truly concerned about them of their growth and development and further that the organization values the employee's innovativeness. Such psychological contract will become the foundation up on which excellent organizations function.

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