

# A Brief Study of Human Resource Management Policies and Practices in Public and Private Sector Commercial Bank

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## ABSTRACT

*The Indian banking system is claimed to possess associate excessive use of labour thanks to the numerous market share of state owned banks. Indian government has undertaken a method of regulative reform to motivate market discipline within the usage of inputs and to extend the worker efficiency and productivity. within the middleNineties, the relaxation of the economy led to the emergence of personal players within the existing situation. This provided far better and easier accessibility of funds to the individuals. Their late arrival within the market enabled them the progressive technology. This helped them to figure a lot of effectively and with efficiency within the market and so outperformed their public sector counterparts. This helped the personal sector banks to expand manifold. As so much because the gift situation is worried the Banking sector in India goes through a transformation section. the general public Sector Banks that are the mainstay of the Banking sector in India account for over seventy eight per cent of the full banking system assets. sadly, they're burdened with excessive Non-Performing assets (NPAs), excessive governmental equity and lack of recenttechnology, that successively is that the cause for sad workers of the organization. Comparative analysis of HRM policies and practices of public and personal sector industrial banks has been done through "content analysis. On the full, thirty totally different HRM areas with relevancy enlisting, choice and promotion, compensation, trainingand development policies of public and personal industrial banks are known and compared through "content analysis".*

**Keywords:** *Public Sector Bank, Private Sector Bank*

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## INTRODUCTION

One of the noteworthy features of the Indian workplace is demographic uniqueness. It is estimated that both China and India will cross a population of 1.45 billion people by 2030; however, India will have a larger workforce than China. Indeed, it is likely India will have 986 million people of working age in 2030, which will probably be about 300 million more than those in 2007. And by 2050, it is expected India will have 230 million more workers than China and about 500 million more than the United States of America (US). It may be noted that half of India's current population of 1.1 billion people are under 25 years of age (Chatterjee, 2006).

Hence, everyone must realise the role of human resources in all round development and growth of the country as a whole. The concept, philosophy and application of HRM is rapidly gaining ground as a popular method of ensuring higher productivity and faster growth, which is now widely regarded as the hallmark of corporate excellence. Human Resource Management is gaining importance in the present fast changing socio-economic scenario. Human resources represent a source of strength, ability, skill, competence, knowledge, attitude, enthusiasm, decision-making powers to be used for accomplishment of individual, organisational, societal and national objectives in the sense they are the most essential. Nothing can be achieved without their co-operation. Moreover, nowadays, top managements of commercial banks in India are now paying increased attention to HRM because now they have realised that human resources need to be closely integrated with planning & decision-making. Here in this chapter an attempt has been made to study and compare Human Resource Management policies and practices of the public and private sector commercial banks.

### **REVIEW OF LITERATURE**

Performance evaluation of banks, has received lot of attention over the past several years (Seifrd and Zhu, 1999). A number of studies were conducted to compare different types of banks operating in India based on different performance/efficiency criteria/ parameters from time to time. After nationalization of banks, there was a growing concern on the deteriorating of banking sector's efficiency in several spheres. The Reserve Bank of India constituted a number of committees, notably Tondon Committee (1975), Luther Committee (1977), Chakravarty Committee (1986) and Narsimham Committee (1991) which inter-alia examined various parameters of efficiency and given a number of suggestions to improve the efficiency of the banks in India. Nag and Shivaswamy (1990) compared the performance of Foreign Banks operating in India with the Indian scheduled commercial banks in terms of growth of deposits and loans and found that the performance of foreign banks stand out significantly higher.

Sarkar and Das (1998) used 15 indicators in their study to compare public sector, private sector and foreign banks based on major criteria representing efficiency viz. profitability, productivity and financial management on which bank-wise/ bank group wise information was available.

According to CRISIL study (2002) it was concluded that lower operating expenses improved the profitability of banks, contrary to the popular perception that only trading profits helped the banking sector shore up their bottom lines. Karam and Puja (2008) compare the productivity of public, private and foreign banks using ACGR and regression and concluded that public sector banks are growing with consistent pace and intra group variations are also less than other sector.

K.V.N. Prasad (2012) compares the performance of public and private sector banks through CAMEL model and concluded that there is no significant difference between performance of public and private sector banks.

### **HRM IN INDIAN COMMERCIAL BANKS**

The study of HRM policies, practices and trends in commercial banks has been made mainly on the basis of secondary data. The policies and practices with respect to recruitment, selection and promotion, compensation, training and development have been studied for public and private sector commercial banks. There are 26 commercial banks operating in the public sector in India. SBI and its 5 Associate banks, 19 nationalized banks and IDBI Bank appear under the public sector. Out of 21 private sector commercial banks, 14 appear under old private sector banks, while the remaining 7 are grouped under new private sector banks. The data regarding all these banks and banking sectors has been gathered from different sources like the published documents, such as annual reports of the banks, manuals, office records of different Training Institutes, divisional offices and head offices of the sample banks and from other available published sources like various annual and monthly publications of Indian Banks' Association,

Bombay (IBA) and RBI Bulletins and supplements to RBI Bulletin, various journals related to banking industry, websites, etc.

### CHANGING PROFILE OF HUMAN RESOURCES IN INDIAN BANKING

Public and private sector banks also differ with respect to their background and work culture. Work culture of public sector banks was based on the concept of socio-economic responsibility, in which profitability remains at the second priority. On the other hand, private sector banks work towards profitability. Because these differences between the sectors hold as important factors in shaping the HRM culture of banking sector, it needs to be explored how they would likely affect job satisfaction. For the success and sustained growth of Indian banks, it is imperative to create a pool of committed employees by determining whether they are job satisfied. Their satisfaction would affect their performance and commitment, which would eventually influence the banks' growth and profitability (Shetty 2012). There are two key metrics to gauge the increasing importance of human resources in the Indian banking sector: (a) Profit per employee and (b) Cost per employee.

These metrics are being discussed with the help of calculations made on secondary data procured from the various publications of the Indian Banks Association, Bombay.

#### (i) Average Profit per Employee

As per IBA data, profit per employee in PSU banks is much lower and in the absence of cost advantage, and the problem of lower productivity calls for an urgent HR transformation in PSU banks. However, bankers feel variable pay structure should still be introduced. The data pertaining to average profit per employee for the period 2004-05 to 2013-14 in the selected Indian public and private sector commercial banks is presented in Table 1.1

**Table 1.1**

**Average Profit per Employee of Public and Private Sector Commercial Banks in India from 2008-09 to 2017-18**

(Amount in Rs. Crore)

Years	Public Sector Banks			Private Sector Banks		
	Nationalised Banks	SBI Group	Combined	Old	New	Combined
2008-09	1.73	1.89	1.78	1.60	7.49	3.47
2009-10	2.49	2.58	2.52	3.73	7.73	5.00
2010-11	2.17	2.45	2.26	0.46	7.59	2.73
2011-12	2.24	3.23	2.56	2.34	1.80	3.12
2012-13	2.99	3.36	3.11	3.15	1.67	3.63
2013-14	3.94	3.84	3.91	1.39	5.45	1.73
2014-15	1.02	5.02	1.32	5.08	5.58	5.24
2015-16	5.46	5.27	5.40	3.93	7.75	5.15

2016-17	6.76	6.69	6.74	3.35	9.93	5.54
2017-18	6.66	6.60	6.65	1.12	10.44	6.33
Average	3.85	1.09	3.92	3.21	7.14	1.49
SD	1.87	1.72	1.81	1.39	2.02	1.18
Variance	3.50	2.94	3.29	1.94	1.06	1.40
CAGR	13.04	12.03	12.73	8.98	3.07	5.62

**Source:** Data compiled from Annual Publications of IBA, Bombay; Performance Highlights of Public Sector Banks and Performance Highlights of Private Sector Banks, 2008-09 to 2017-18

The average profit per employee of the Nationalised banks, and SBI and its Associates taken together as public sector has been recorded as Rs. 3.85 crore and Rs. 1.09 crore respectively; and the average of old and new banks in private sector for the same period has been recorded as Rs. 3.21 crore and Rs. 7.14 crore respectively. This indicates that the new private sector banks have achieved the highest average business per employee as against their public sector counterparts during the period under study. However, the combined average profit per employee for both the public and private sector banks has been observed as Rs. 3.92 crore and Rs. 1.49 crore respectively.

The profit per employee under both the categories of public sector banks has shown a gradual increase during almost all the years under study except the year 2013-14 in the case of SBI and its associates where the profit has gone down from Rs. 6.69 crore to Rs. 6.60 crore. Both the old and the new banks under the private sector segment have shown fluctuating profits during the period under study, particularly the profit per employee under the old private banks came down considerably to Rs. 0.46 crore in the year 2009-10 as against Rs.3.73 crore in the year 2008-09. The nationalized banks have recorded the highest Compound Annual Growth Rate (CAGR) of 13.04 per cent, followed by 12.03 per cent, 8.98 per cent and 3.07 per cent in the case of SBI group and its associates, new private sector banks, and old private sector banks respectively. It is evident from the analysis made above that the overall performance of nationalized banks is quite satisfactory with respect to profit per employee.

#### (ii) Average Cost per Employee

Table 1.2 indicates the average cost per employee of the public and private sector commercial banks in India from 2008-09 to 2017-18.

**Table 1.2**

**Average Cost per Employee of Public and Private Sector Commercial Banks in India from 2008-09 to 2017-18**

(Amount in Rs. Crore)

Years	Public Sector Banks			Private Sector Banks		
	Nationalised Banks	SBI Group	Combined	Old	New	Combined
2008-09	0.03	0.03	0.03	0.04	0.11	0.06
2009-10	0.04	0.04	0.04	0.05	0.11	0.06

2010-11	0.05	0.06	0.05	0.05	0.13	0.08
2011-12	0.05	0.07	0.06	0.05	0.13	0.08
2012-13	0.05	0.06	0.06	0.06	0.12	0.08
2013-14	0.26	0.39	0.30	0.06	0.13	0.08
2014-15	0.07	0.07	0.07	0.07	0.14	0.09
2015-16	0.08	0.08	0.08	0.08	0.14	0.10
2016-17	0.11	0.11	0.11	0.10	0.15	0.11
2017-18	0.11	0.11	0.11	0.10	0.17	0.12
Average	0.09	0.10	0.09	0.07	0.13	0.09
SD	0.07	0.11	0.08	0.02	0.02	0.02
Variance	0.00	0.01	0.01	0.00	0.00	0.00
CAGR	11.05	12.54	11.46	9.12	1.24	6.79

**Source:** Data compiled from Annual Publications of IBA, Bombay; Performance Highlights of Public Sector Banks and Performance Highlights of Private Sector Banks, 2004-05 to 2013-14.

The average cost per employee of the nationalized banks and the SBI group taken together as public sector has been recorded as Rs. 0.09 crore and Rs. 0.10 crore respectively; and the average cost of old and new private sector banks has been recorded as Rs. 0.7 crore and Rs. 0.13 crore respectively. This indicates that the public sector banks are incurring more cost per employee which is Rs.0.10 crore in the case of SBI group, followed by nationalized banks with Rs.0.09 crore and old private sector banks with Rs. 0.07 crore. The cost per employee of the nationalized banks is rising constantly with a sudden increase in the year 2013-14 when it increased to Rs. 0.26 crore from Rs. 0.05 crore, and thereafter it is again rising at a constant rate. The SBI group under the public sector has also shown quite a gradual increase up to 2012-13 and in the year 2013-14 the cost again increased manifold from Rs. 0.06 crore in 2010-11 to Rs. 0.39 crore in 2013-14, and thereafter again the increase in the cost is quite gradual. This indicates that in the year 2013-14 a very high cost per employee was incurred by both the classes of public sector banks. The old banks under the private sector have shown a very gradual increase during all the years under study. But in the case of the new private sector banks the cost incurred per employee was Rs. 0.11 crore in 2008-09 which increased at a constant rate thereafter and reached Rs. 0.17 crore during 2017-18. The growth rate is the highest in the case of the nationalized banks, i.e., 287.28 per cent and lowest in new private sector banks, i.e., 67.48 per cent. The banks under the SBI group have recorded the highest CAGR of 12.54 per cent, followed by the nationalized banks and old private sector banks with the percentages of 11.05 and 9.12 per cent respectively. The CAGR of the new private sector banks is 1.24 per cent, which is quite less. The average cost per employee for both the public and private sector banks is the same, i.e., 0.09 per cent.

The average cost per employee for public sector banks has been higher than that of their private sector peers since financial year ending March 2007. The public sector banks have been losing their cost advantages because of their increasing per employee cost. This is contrary to the popular perception that the employees in the public sector banks are paid lower salaries. The public sector is, thus, facing two types of challenges; the need to induct talent in large numbers and the need to contain staff costs. The cost structure of the public sector banks varies significantly from that of the private sector. About 62 per cent of the costs of public sector banks comprise employee costs, as against 37 per cent in the private sector. Globally, this ratio is about 50 per cent for most of the commercial banks. Employees costs which are fixed in nature, introduce operating leverage into the banks profit and loss statement. A dip in the performance due to market conditions affects the bottom line directly. On the other hand, a cost structure with appropriate levels of outsourcing allows a bank to pass on some of the market risks to business partners. Similarly, variable components in employees costs are also linked to performance which helps them to protect profit margins.

The trend-setter philosophy of HRM in Indian commercial banks have been continuously undertaken as a movement and direction to enable every individual as a member of banking community to realize and activate his potential so as to contribute to the achievement of the banks goals and derive satisfaction thereof. Basically, a sound HRM policy aims at creating a facilitating environment for overall development of people and thereby enabling them to translate their potentials into role related competencies. The banks recognize the value of contribution of the individuals in achieving the corporate objectives.

In Indian banking sector, the formally designed HRM structure emerged during the last years of 1980s. At present, in spite of their good performance at many fronts, Indian commercial banks particularly public sector banks are seriously handicapped vis-a-vis their competitors in the market place, on account of huge manpower deficiency. Their employee compensation package, skill sets, skewed age profile, restrictive deployment, and performance management system are the major issues placing them somewhat at a disadvantage front. Some of the major human resource challenges before Indian commercial banks are building capabilities for the future; improving productivity and performance culture; building talent management practices; building succession for key critical and leadership positions; developing ownership, accountability, professionalization and institutional mechanism for sustained human resource management; and transforming human resource function from legacy driven to development.

Nowadays, top managements of commercial banks in India are paying increased attention to HRM because they have realised that Human resources need to be closely integrated with planning & decision-making based on sound policies. Based on the above aims most of the Indian commercial banks started working on the core areas of HRM like:

**1. Manpower and Recruitment Planning:** Around 1.8 lakh of the 8 lakh public sector bank employees will need to be replaced over the next five years. According the 2014 report by the Government constituted Khandelwal Committee on human resource policies in public sector banks, over 22,000 employees are likely to retire in 2016-17. This number is expected to go up to around 30,000 in 2017-18. With experienced bank professionals leaving and new hires not fully prepared to take over, a serious vacuum in middle and top management is on the cards. The Khandelwal Committee Report pointed that by the end of 2018; around 80 per cent of general managers, 65 per cent of deputy general managers, 58 per cent assistant general managers, and 44 per cent of chief managers would be retiring. Many of these officials who will need to be replaced have been with banks for over 30 years and their exit will leave a gap difficult to fill.

Indian commercial banks' human resource planning is aimed at improving the innovative and creative abilities of the work-force through promoting a conducive climate, enhancing the human touch and improving interpersonal relations. Manpower requirements are assessed at the micro level even though overall decisions are made within framework of Government guidelines and in

corporate perspectives. A core area like Manpower Planning has not received serious attention in the banking sector so far. Manpower assessments are made on the basis of branch activity analysis and productivity norms. Manpower planning in each bank is kept subordinate to guidelines issued by the Government of India and RBI.

Human resource planning by each bank is a rigorous exercise, factoring all possible contingencies in HRM practices, both quantitative and qualitative. Further, the banks have to plan very carefully their recruitment in terms of entry qualification, methodology of recruitment, etc. The recruitment exercise carried out today in many public sector banks also does not reckon skill and competency requirements. Moreover, large scale Core Banking Services implementation at branch level has made no significant difference in the realignment of manpower in public sector banks as compared to the private sector commercial banks. Lack of proper human resource planning has also resulted in wide variance in staff ratios across public sector commercial banks as well as in many of the private sector commercial banks. At present, banks cannot claim to have a proper human resource planning system that captures the type of people it requires, the level at which they are required and clearly defined roles for everyone.

Another challenging area for Indian public and private sector commercial banks is that the kind of talent they require. They need good, suitable and capable people, who are ready to face the challenges of working in rural areas. Banks need to acquire people with the right kind of talent. But unfortunately, it is the same limited talent pool that is targeted by all the sectors, Financial Institutions, Insurance, Telecom, Banks and other industrial and service sectors, which are on fast growth track and in need of talented manpower.

**2. Recruitment and Selection Procedures:** Nowadays, effective recruitment is very essential for every organization. The recruitment and selection procedure should be properly designed and exercised keeping in mind the requirements of the job, number of vacant positions to be filled, number of applicants that are to be called for the process, resources that are used and to be used in the entire process etc. Therefore, it has become essential to design the recruitment process carefully and to adopt the effective measures to acquire the best talent in the banking sector. Similarly, campus recruitment is not just about approaching any Institution or University, but also aims at creating a pool of suitable candidates and interviewing them equally in order to fill a large number of anticipated openings. A major concern before public sector banks is to replace a large number of employees, who are to retire during the coming years.

Table 1.3 carries the response data regarding human resource (recruitment and selection) policies and practices being followed by the public and private sector commercial banks in terms of form and contents, and systems and procedures through "content analysis. The table explains as to whether these policies and practices are framed and exercised fully or partially in these commercial banks.

**Table 1.3**

**Comparative Analysis of Human Resource (Recruitment and Selection) Policies and Practices in Public and Private Sector Commercial Banks**

S. No.	Policies and Practices	Public Sector Banks		Private Sector Banks	
		Form and Contents	Systems and Procedures	Form and Contents	Systems and Procedures
1.	HRM practices are standardized	Yes	Partial	Partial	Partial
2.	Staff strength is	No	Yes	Yes	Yes

	balanced				
3.	Recruitment and selection policies: Well-defined	Yes	Yes	No	No
4.	Analysis of positions is made before recruitment process starts	Yes	Yes	Yes	No
5.	Defined mode of recruitment	Yes	Yes	Yes	No
6.	Line managers in recruitment participate & selection	Yes	Yes	Yes	Yes
7.	Valid and standardized recruitment tests	Yes	Yes	Yes	Partial
8.	Comprehensive selection process before rendering a decision	Yes	Yes	Yes	Partial

Earlier recruitment in public sector banks was made through Banking Selection and Recruitment Board (BSRB). The high standards of recruitment set by the Board helped the public sector banks to get quality staff. However, after liberalization, BSRB was scrapped and banks started recruiting the staff at their whims and fancies. Some grave irregularities came to light in the recruitment process of some public sector banks, and in some cases the seniority of the officers working in these banks was ignored at the time of their promotion.

After dismantling the common recruitment board for the industry, banks were allowed to recruit employees at their own levels even for the senior positions, based on their own requirements. The recruitments were done according to the business strategies and ratified by the board which had Government nominees. And, as such, no senseless recruitment was reported as done by the commercial banks, but, this led to cut-throat competition for talent search and poaching of each other's employees. After a while, the Government started feeling concerned about the large recruitment programmes which were carried out by some of the public sector banks. The

question that why the banks needed so much staff despite computerization and implementation of technology, was still an unsolved mystery.

However, a few private banks remained cautious about their expansion programmes, and the recruitment outlook of the public sector banks started becoming healthy due to significant retirements and rural expansion plans. Some of the private banks that have grown their business aggressively, riding on the world's second fastest growing economy, started shrinking their balance-sheets, while public sector banks began to expand by opening new branches across the country. Moreover, new recruitments started keeping pace with the banks expansion plans. The banks were adopting fast-track promotions to fill-in all management gaps. Another reason behind the sudden spurt in recruitment was the fact that unlike private banks, public sector banks cannot outsource many activities, including sourcing loans. Now, apart from recruiting through a normal process of written examinations and interviews, banks are also going for campus recruitments and outright poaching and sometimes from fellow public sector banks. Despite low salary, many private sector employees are now approaching public sector banks looking for job security.



The public sector banks now have started recruitments through IBPS which is an autonomous body to recruit the required manpower in the public sector banks. The private sector banks make selections of employees and officers directly or through the recruiting agencies and consultants as per their requirements.

## CONCLUSION

A bank's ability to deliver depends largely on streamlining its human resources. No doubt, the public sector banks have gained market share in the last decade. They are doing very well in terms of product innovation, marketing and implementation of technology, but still fail to attract the right talent for specialized services such as treasury and risk management. A fast-track promotion policy and incentive-linked performance package may help banks solve the issue. The public sector banks as compared to private sector banks are quite late in certain areas of human resource management like, long-term manpower planning, balancing their manpower requirements, promotion policies, and training and development of and still there is a welcome initiative for them. Thus, the Indian commercial banks are expected to focus on recruitment planning, career planning and training, performance-linked incentives, succession planning and grooming of leaders for public and private sector commercial banks. Recruitment machinery is not properly equipped as required to attract talent and to retain and train them through well-planned policies and practices. Training and development of the staff has been an integral part of the banks since beginning, which somehow missed the track midway and the only significance for the training was to fill in the slots of the training programmes and keep the training centres going by achieving the targets

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