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Problems of HRM in Public Sector Commercial Banks of India : An Overview

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ABSTRACT

The importance of human resource management can not be denied. The rise in competitions and regulatory provisions have made it challenging. This paper aims to analyze the problems of human resource management in public sector commercial banks in India. Further, it also aims to discuss the current situation of human resource management in these banks. It is found that while the government and the central bank had step in and provided a supportive policy environment, banks need to also do their bit to equip themselves for the brave new era of greater competition with innovative model of development. The banks must strengthen their risk assessment systems, along with better risk management. The public sector banks would have to be granted greater operational flexibility to meet emerging challenges.

Keywords : Human Resource Management, Policy Environment Financial Sector

I. INTRODUCTION

Human resource management is the process of proper and optimum utilization of available limited human resources. The main purpose of the human resource management is to make optimum use of existing human resource in the organization. The best example at present situation is that the construction industry has been facing serious shortage of skilled workforce and this shortage is expected to triple in the next decade from the present 30 percent, negatively impacting the overall productivity of the sector, warn industry experts. Every organization desire having skilled and competent people to make their organization more effective than their competitors. Human resources are the most important assets for any organization rather than land and buildings, because without human resources no activity in the organization can be done. It could be said that HRM practices play a very important role in achieving the organization's goals and maintain the competitive advantage. Human resource management is the most comprehensive task in any organization. Without proper management of its people, no organization can achieve its missions and visions. The competitive forces have brought about a noticeable change in the customer's expectation. HR poses the biggest challenge to the public sector banks in India. Changes in technology, customer preferences, regulatory framework, etc. causes the need of radical shift in the HRM. In banking sector, the HR function is not given much importance as it deserve, that's why it is causing certain serious issues and problems and hampering the growth and efficiency of banking institution.

Leaving aside the compensation and allowances and some other areas like disciplinary action, in all other areas even though there are broad guidelines, individual banks are allowed operating leverage in policy making, interpreting and implementing. The disciplinary sub system of nationalised banks is governed by industry level agreements, guidelines and regulations. Similarly, officers in the banks are governed by the provisions of Bank Officer Employees (Conduct) Regulations and Officer Employees (Discipline & Appeal) Regulations. Both the regulations are made applicable to the individual banks after ratification by the Board of Directors, under section 19 of the Banking Companies (Acquisition & Transfer of Undertakings) Act 1970/1980.

Objectives and Scope

The paper being a theoretical review of the human resource management in public sector commercial banks, aims to analyze the problems of human resource management in public sector commercial banks in India. Along with this, it also aims to discuss the current situation of human resource management in these banks.

Present Situation of HRM in Banking Sector of India

The past decade and a half have been a challenging time for the banking sector in India. Indian Banks had coped well with these challenges and have emerged stronger from difficult times. While the banking sector has responded well so far, there are several challenges that lie ahead. Our banking system needs to equip itself to deal with emerging challenges. Our banking system must be prepared to deal with the opportunities of higher growth, and the challenges of ensuring more equitable growth. In dealing with the needs of rural enterprises and of small and medium enterprises in urban areas, public sector banks have to look for new delivery mechanisms. These must economize on transaction costs and provide better access to the currently under-served. To serve new rural credit needs, innovative channels for credit delivery will have to be found.

An important challenge facing the banking sector is to extend financial services to all sections of society. Like others, the poor need a range of financial services that are convenient, flexible, and affordable and not just loans. The focus on "financial inclusion" comes from the recognition that this can serve the interests of both society and the banking system. The roadmap on the extent of foreign investment in banks in India provides guidelines until 2009. The presence of foreign banks in the country has been useful in bringing greater competition in certain segments of the market. The increased presence of foreign banks over time will pose further competitive challenges to domestic banks and also to the regulator.

Problems of HRM in Indian Banking Sector

The India's PSU banks, which make up 70 percent of the total banking industry, are in a sad state. Consider this. The state-run banks are neck-deep in bad debts (about 12 percent of their total loans are either bad or being restructured) and they are ready with their begging bowls for a bailout package form the government of India for survival in the banking sector. They are unable to fend for themselves--to service their mandatory reserve requirements, bet on higher credit growth and repair their impaired balance sheets. If there is a serious intent to revive the banking sector and the idea is overhauling the banking sector, cosmetic changes will not help. Followings are the problem and challenges of banking sector in India:

Capital : The current annual allocation of Rs 25,000 crore under the Indradhanush programme is inadequate to equip the banking system for a higher growth phase in the economy. Many experts are of the view that at least Rs 35,000 crore should be infused in the state-run banks to make them strong institutions and enable these banks aid the economic growth in Asia's third largest economy. Under the government's Indradhanush plan, of the Rs 1.8 lakh crore capital needed by banks under Basel-III, the government has offered to infuse Rs 70,000 crore over four years till 2018-19 and wants the government banks to fend for themselves for the remaining Rs 1.1 lakh crore from the market.

Demand revival : The bigger problem is that there is no economic activity on the ground at this stage necessitating more capital. So, the government will have to do something to boost demand from companies, while simultaneously recapitalizing banks. The initiatives in the housing sector are welcome step in this direction. Lending rate cuts alone wouldn't do the trick since there isn't enough demand for loans, especially from corporations. It doesn't make sense to retain several weak public sector banks purely at the mercy of government capital. Presently, there are at least 15 banks in which government has shareholding of over 70 percent and five of them in which the government holds over 80 percent. There is no reason why government continues to be in the owner so many state-run banks except to use them as vehicles for populist schemes such as mass loan waivers or directed credit to certain sectors.

Bad loan resolution : The ongoing clean up exercise, initiated by the Reserve Bank of India (RBI) under Raghuram Rajan, has helped to dig out much hidden dirt from the bank balance sheets but that isn't enough. Recognizing the problem is one part, the next step is how to deal with it. Recovery of large corporate loans is a nightmare to public sector banks. The debt recovery tribunals have failed to speed up the process. The battle often ends up in courts prolonging the dispute resolution to years. Will the new insolvency code change this scenario is a question one needs to wait and watch? But, one efficient way for the resolution of bad loans stuck in the banking system is by creating a separate entity—bad bank—to deal with this task. All the bad assets in the banks should be transferred to this new entity, whose sole task will be to recover this chunk of impaired assets.

Autonomy in functions : By now, there are reasons to believe that the government has happily inherited the practice of micromanaging banks. This yet again send a wrong signal if the idea is to let banks do their business. If the idea is autonomy in functions, it is not the government but the banks that should take a call on their business. The rating agencies too have repeatedly cautioned that a weak banking sector continues to be a major drag in the India growth story. It is time the government pay attention to the warning signals from banking sector which is the backbone of any economy. The latest data shows that bank credit growth slowed to the lowest since 1997. The Strategic Human Resource Management (SHRM) will formulate and effectively implementation of banking policies with a focus on greater competition, which will also bring all the issues of corporate governance in the banking sector. The quality of corporate governance in banks assumes critical importance as competition intensifies and banks strive to retain their client base. In an environment of intense competition, a vigilant and alert supervisory structure is of paramount importance. It should be able to pick up warning signals and take quick, strong and deterrent action in cases of inadequacies or deviations from norms.

II. Conclusions and Suggestions

The financial sector reforms have been successful in improving the performance of the banking system. While the government and the central bank had step in and provided a supportive policy environment, banks need to also do their bit to equip themselves for the brave new era of greater competition with innovative model of development. The banks must strengthen their risk assessment systems, along with better risk management. The public sector banks would have to be granted greater operational flexibility to meet emerging challenges. Thus, banks will have to innovate and accelerate their reach into emerging low income and rural market segments.

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