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SURVEY ON HUMAN RESOURCE MANAGEMENT PRACTICES IN BANKING SECTOR IN INDIA

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INTRODUCTION

With the enhanced weight age of services sector to the country's GDP coupled with growing global competition, it has become important to define and measure quality in services (Sarangi, 2007-08). In today's world of global competition, rendering quality service is a key for success and many experts concur that the most powerful competitive trend currently shaping marketing and business strategy is service quality (Abdullah, 2005). Over the last twenty years or so, a great deal of research attention has been devoted to the field of service quality (Crosby and Stephens, 1987; Silvestro *et al*., 1990; Cronin and Taylor, 1992; Avkiran, 1994; Brady and Robertson, 2001; Robledo, 2001). Service quality has been discussed in number of researches and writings (Gronroos, 1982; Lehtinen and Lehtinen, 1982; Lewis and Booms, 1983; Sasser *et al*., 1978; Bolton and Drew, 1991; Cronin and Taylor, 1992; Teas, 1993; Chumpitaz and Paparoidamis, 2004; Abdullah, 2005; Zeithaml and Bitner, 2004; Kundu and Vora, 2004). As a result of these researches, service organizations have placed service quality at the top of the list of strategic constructs. Interest in the measurement of service quality is thus understandably high and the delivery of higher level of service quality is the strategy that is increasingly being offered as a key to service providers' efforts to position themselves more effectively in the marketplace (Cronin and Taylor, 1992). Service quality is a measure of how well the service delivered matches customer's expectations (Lewis and Booms, 1983) or providing the customer with what he wants, when he wants it, at acceptable cost, within the operating constraints of the business, and providing a better service than the customer expects (Lewis, 1987). Service quality is an attitude of overall judgment about service superiority, although the exact nature of this attitude is still hazy (Abdullah, 2005). Service stems from a comparison of performance perceptions with expectations (Parasuraman *et al*., 1988) or derives from a comparison of performance with ideal standards (Teas, 1993) or from perceptions of performance alone (Cronin and Taylor, 1992). Effective delivery of quality services involves finding customers, identifying their needs, and meeting or exceeding their expectations (Kundu and Vora, 2004). A large number of studies have found a positive relationship between the use of systems of high involvement (Guthrie, 2001) or high performance (Huselid, 1995) or high commitment (Arthur, 1994) HRM practices and organizational performance (Katou and Budhwar, 2006, 2007). Organizations have to be looked upon as bundles of capabilities (Ulrich and Lake, 1990; Stalk *et al.*, 1992). Present day human resources need to add new competencies to their repertoire. There ought to be an emphasis on utilizing a system of management practices that provide employees with skills, information, motivation, and latitude, resulting in a work force that becomes a source of competitive advantage (Huselid, 1995; Guthrie *et al*., 2002). Rigorous recruitment and selection processes, performance-contingent compensation systems, extensive development and training activities, and commitment to employee involvement are generally considered parts of high performance work systems (Becker and Huselid, 1998).

Success is driven by people, knowledge sharing and a coherent business model which involves empowerment, financial allocation, and a system that operates independently of organizational charts and hierarchies (Joynt and Morton, 2005). Delivering quality service is essential to survival in an interdependent global market. Developing a talented workforce is essential to sustainable competitive advantage. Hence, a company that creates a talented workforce and implements suitable quality service programs is likely to succeed in a globally competitive economy (Kundu and Vora, 2004). Organizations are participants in talent wars in which rewards go to those companies who can attract, develop, use, and retain talent globally (Brake, 2005). Human resource management (Truss, 2001). Moreover, firms may observe and fairly easily imitate individualpractices, the whole HRM system is much more difficult to imitate (Barney and Wright, 1998) andit is the overall system of HRM practices that contributes to the firm generating a competitive advantage (Bjorkman and Budhwar, 2007).

To recruit and retain best talent, organizations not only need to be high performing but also seen to be of high character, credibility and integrity and value driven (Smith and Kelley, 1997). Organizations which adopt the HR as partners in progress policy, demonstrate a distinct HR philosophy characterized by employment security, company flexibility, sharing of financial success with the workforce, development of good communication and consultation, and representative employee voice (IPA, 1997).

Relevance of the study

Coupled with globalization, India's initiation of liberalization in 1991 has given rise to a number of MNCs in the country. This has opened up the closed doors to the complete world. Particularly a number of MNCs have shot up in service industries like IT, software, banking, insurance, management consultancy, etc. The services sector has emerged as a dynamic growth sector in India (Khandwalla, 2002) which dominates the Indian economy today, contributing more than half of the national income. The tremendous growth in the services sector has a major component of the financial services. Financial services are now becoming increasingly open to global competition (Llewellyn, 1995; Morgan, 1992; Nellis, 1994) as the role of financial services in stimulating and sustaining economic growth is well known (Shanker, 2006). At the present time, the financial services industry is in a state of considerable structural change and competition is intense (Longbottom and Zairi, 1996). This phenomenal growth in economy owing to the service industry attracts attention towards more and more research in this area in developing countries particularly in India which has witnessed the vibrations of the changes in past two decades and more so in this decade.

Why banks and insurance companies?

Among service organizations, the banking sector is the largest one that caters to the needs of the people belonging to all sections of society (Angur *et al*., 1999). Banks are catalytic agents which can create opportunities for the development of national resources and provide employment on a large scale. They perform a very important role in the development process by providing facilities for the pooling of savings and making them available to trade and industry, which in turn would work for the expansion of the productive capacity of the people, to satisfy their wants with respect to both goods and services. Banks are established to identify needs in the society for financial help, to device and deliver products and to earn profits for their efforts (Rao, 2005). One of the most important segments of financial system is commercial banking (Shanker, 2006). The commercial banking industry in India is characterised by the coexistence of three distinct ownership groups: public banks, domestic private banks, and foreign banks (Kumbhakar and Sarkar, 2003).

Next to banking is evolving the insurance industry with huge growth potential. The insurance industry forms an integral part of the global financial market, with insurance companies being significant institutional investors. A sound national insurance market is an essential characteristic of economic growth (Hussels *et al*., 2005). This is not surprising as the insurance industry forms a major component of an economy by virtue of the amount of premiums it collects, the scale of its investment, and more fundamentally, the essential social and economic role it plays by covering personal and business risks. By encouraging these factors that promote insurance demand and aid financial development, policymakers possess a strong tool to stimulate economic growth (Hussels *et al*., 2005).

India has about 300 million people who can afford to buy life, health, and pension plan products. Out of this, only 20% have insurance and that too covers only 25% of their needs and financial capacity. The remaining 80% have no insurance cover. The life insurance market of India, therefore, has tremendous growth potential (Shanker, 2006). Liberalization in Indian insurance sector has opened the sector to private competition. The Insurance Regulatory and Development Authority bill has cleared the way for private entry into insurance sector as the government was keen to invite private sector participation into insurance. A number of foreign insurance companies have set up representative offices in India and have also tied up with various asset management companies (Shanker, 2006). In recent decades, the insurance sector, like other financial services, has grown in economic importance. This growth can be attributed to a number of factors including, but not exclusively, rising income and demand for insurance, rising insurance sector employment, and increasing financial intermediary services for policyholders (Ward and Zurbruegg, 2000).

The growth potential in both banking and insurance has paved way for unending competition amongst firms. Markets are now becoming fiercely competitive. The scramble for customers is getting intensified. Securing edge over rivals is a major challenge facing marketers. The growing competition coupled with higher customer expectations and greater use of technology is bound to give a totally new shape to the banking system in India (Shanker, 2006) and insurance system as well. Customers are racing to find comprehensive solutions that address their specific needs.

Service organizations, specifically, banking and insurance organizations, face challenges of globalization, HR management, consolidation, and the race to keep up with new technology as these industries are rapidly evolving and expanding. Service providers earlier were product-focused and segmented and now they are becoming universal banks and financial services supermarkets. On realizing the importance of services, then financial services and more specifically banking and insurance, it is now evident that to compete, the service providers have to develop competencies to compete. It is needless to say that 'King Customer' can be satisfied with the best and only the best i.e. quality. More specifically we can say quality service.

High quality service helps meet several requirements such as customer satisfaction and its consequent loyalty and market share, soliciting new customers, improved productivity, financial performance, and profitability (Jullian and Ramaseshan, 1994; Lewis, 1993). In today's world of fierce competition, rendering quality service is a key for subsistence and success. Rather, it has become essential for survival of service companies in the emerging world without borders (Kundu and Vora, 2004). It is difficult for service firms to envision and understand the aspects which mean high quality to consumers. Service quality allows an organization to differentiate itself from the competitors and gaina substantial competitive advantage.

Hence, service quality is at the forefront of both the marketing literature in general and the service marketing literature in particular (Lassar *et al*., 2001). Quality service is recently considered a critical factor that enables many service organizations achieve a differential advantage over their competitors.

It has become an important research topic because of its important relationship to corporate marketing,financial performance, and moreover firm performance.
The important consideration is that service quality should form the basis of building all customer retention strategies. Service quality is highly dependent on the service employees. Competitive advantage of a firm can be generated from human resources. Effective HRM practices, together, influence firm performance. Distinctive human resource practices help to create the unique competencies that determine how firms compete (Capelli and Crocker-Hefter, 1996). People make the organization, its products, and its service solutions unique. Only if the employers treat their employees as precious resources, the employees would in turn treat their customers as valuables.

Therefore, it is indispensable for service organizations to look upon HRM as a source of competitive advantage. Developing a talented workforce and implementing suitable quality service programs is essential to succeed in a competitive economy (Kundu and Vora, 2004). Moreover, the fact that organizational performance is greatly influenced by innovative forms of human resource management is not ignorable in present times.

Since banking by its nature is information (intensive) and human capital intensive industry (D'Souza, 2002) and so is insurance industry, they need to focus on human resource management practices for getting competitive advantage and profitability. Firms have increasingly recognized the potential of their people to be a source of competitive advantage (Pfeffer, 1994). Academic research is attempting to reveal a relationship between a firm's HR practices and its performance (Wright *et al.*, 2003). Delery and Doty (1996) examined the relationship between HR practices and profitability in a sample of banks in the US. In testing universalistic, contingency, and configurational approaches to HRM, they found that HR practices were positively related to profitability.

In a research, Guthrie (2001) examined the impact of HR practices on turnover and firm productivity among a sample of firms in New Zealand. He noted that HR practices had an impact on turnover and that the relationship between retention and productivity was positive when firms implemented high- involvement HR practices, but negative when they did not. The seminal work in this area was produced by Huselid (1995), who examined the relationship between HR practices and corporate turnover, profitability, and market value. Results also suggested that those savings banks which better combined their HR practices to create and to develop a strategic human capital pool had shown better levels of profitability and productivity (Saa Perez and Garcia Falcon, 2004).