



# EMERGING ISSUES AND EFFECTIVE STRATEGIES IN HUMAN RESOURCE MANAGEMENT FOR PUBLIC SECTOR BANKS IN INDIA

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## ABSTRACT

*The banking industry is currently experiencing substantial transformational changes. The role of Human Resources (HR) will be significant in fostering growth and innovation in this sector. However, these transformational changes present various challenges for the banks. This article presents the growing challenges in Human Resource Management (HRM). To nurture its employees, emphasis was shifted to human resources development (HRD) in 1995. Effective human resource management is one of the most critical prerequisites for survival in this competitive landscape. The key HRM challenges are talent management, staffing, promotions, performance appraisals, compensation and incentives, high employee attrition rate, leadership gaps, succession planning, feedback systems, and employee engagement. In a broader context, Human Resource Development (HRD) focuses on empowering individuals and enabling them to improve their skills to elevate the organisation and society. Human resources are now viewed as the organisation's most valuable assets for survival. In transitioning from the traditional master-slave dynamic to a modern trusteeship model, where employers and employees are perceived as partners investing their wealth and labour, several new values are being integrated. Similarly, the shift from conventional salary administration practice to the innovative Electronic Human Resource Management System (E-HRMS) highlights the strategic role of HRM in the organisation's survival and growth. This study presents an overview of HRM best practices, Human Resource Development strategies (HRD), and emerging challenges in HRM within the Indian Banking Sector.*

**Keywords:** Human Resource Development (HRD); Human Resource Management (HRM); HRM Challenges; Indian Banking Sector.

## INTRODUCTION

Human Resource Management (HRM) focuses on individuals within an organisation, often called "**the management of man.**" This role is essential and demanding due to the ever-changing nature of employees. Since two individuals are not alike in their mental skills, social finesse, i.e., *the skill of navigating social interactions with grace, tact, and sensitivity*, emotions, and behaviours, they show significant differences individually and collectively, influenced by various factors. People are responsive beings; they experience feelings, thoughts, and actions, which means they cannot be managed like machines or rearranged like furniture in a room. As a result, management personnel must approach them with care and sensitivity.

The Indian banking industry plays a crucial role in the development of the economy. Since the economic reforms in 1991, i.e., Liberalisation, Privatisation, and Globalisation (LPG), there has been a complete change in how banking and financial services are delivered to customers. For the growth and development of an organisation, human resources are essential. Among the factors of production, human resources are very noticeable as they possess unlimited potential to assist in the organisation's growth and development. Human competencies have become increasingly indispensable for expanding the banking sector, which is affected by technology adoption, rising customer expectations, and competition. Flippo states, "HRM is the planning, organising, directing, and controlling of the procurement, development, compensation, integration, maintenance,

and reproduction of human resources to ensure that individual organisational and societal objectives are accomplished.”

## REVIEW OF LITERATURE

**(Pfeffer, The Human Equation: Building Profits By Putting People First, 1998)** The research indicates that “Companies frequently try to implement organisational innovations, like those mentioned, in a fragmented manner.” He explained, “Introducing practices in isolation may not yield significant results, and in some cases, it might even be detrimental.” This implies that comprehensive approaches are more effective. Although this seems complicated and relatively labour-intensive, it is logical. One can recruit the right individuals, ensure job security, offer competitive salaries with bonuses linked to organisational success, maintain financial and performance data transparency, and even supply extensive training. Still, it will not be effective unless the workplace environment and culture support self-managed teams and minimise status differences.

**(Federation of Indian Chambers of Commerce & Industry - (FICCI), Annual Survey February 2010)** The survey indicates that public, private, and foreign banks view *the challenge of attracting highly qualified young individuals as the main threat to their human resource (HR) practices*, overshadowing concerns such as elevated staff costs, the recruitment of skilled employees by competitors, and high turnover rates. **(Itika, 2011)** The research titled ‘Fundamentals of Human Resource Management: Emerging Experiences from African Countries’ has made an initial effort to bridge the gap between *Eurocentric concepts, philosophies, values, theories, and practices in human resource management and the realities faced by African organisations*. This will contribute to laying a foundation for exploring what is effective and what is not in human resource management, focusing on identifying, utilising, compensating, evaluating, and developing talents and competencies, which are increasingly vital for enhancing organisational competitiveness and sustainability.

**(Gupta, Dhanawade, & More, 2020)** The study concludes that India’s banking sector faces intense global competition and a talent shortage. Financial institutions must view employees as important as customers and adopt innovative human resource (HR) strategies to attract and retain skilled personnel in secure work environments. Competent employees are essential for navigating international competition. As banks implement these HR strategies, improved productivity may lead to greater recognition of their importance for growth, with practices varying across different institutions. **(FICCI-IBA Survey of Bankers, July – December 2024)** The Reserve Bank of India (RBI) has announced plans to establish a committee to create a Framework for Responsible and Ethical Enablement of Artificial Intelligence (FREE-AI) within the Financial Sector. Banks involved in the discussion have been requested to provide their insights on vital issues and recommendations the proposed committee should consider. Main priorities include ensuring that human oversight is maintained in AI-based decision-making, requiring audits, reducing AI-related market risks, and enhancing consumer protection. It is essential to address data privacy, algorithmic bias, and cybersecurity threats and promote collaboration within the industry, standardisation of AI, and talent development. The framework should balance fostering innovation and implementing regulation, support AI adoption for smaller entities, and build public confidence through transparency and ethical AI practices.

## OBJECTIVE OF THE STUDY

- To understand Human Resource Management practices and their Emerging Challenges in the Indian banking industry.

## RESEARCH METHODOLOGY

The present study is qualitative and exploratory, utilising primary data to gather insights and information specifically regarding public sector banks in India. HR professionals, managers from senior, middle, and junior management grades, and bank award staff, were interviewed telephonically or face-to-face. Both published and unpublished data from banks were utilised to validate the information obtained through surveys and interviews. A comprehensive literature review was conducted, and information was collected from banks’ annual reports, academic articles, books, and online sources. However, important insights were also gained through verbal exchanges with customers, bank employees, and online discussion forums.

## INDIAN BANKING SYSTEM

Contemporary banking in India includes the Reserve Bank of India, scheduled banks, non-scheduled banks, regional rural banks, payment banks, and small finance banks. The Reserve Bank of India, as the central bank, began functioning on 1 April 1935, when it took over the management and control of currency from the Government. Scheduled banks, a group of financial institutions, are listed in the second schedule of the RBI Act of 1934. These banks must have a paid-up capital and reserves of more than Rs. 5 lakhs to be listed. The Reserve Bank of India (RBI) plays a crucial role by offering loans to these banks at bank rates whenever required. As of 31st March 2024, several types of scheduled commercial banks in India play a distinct role in the country's financial landscape. These include 12 Scheduled Public Sector Banks, 21 Scheduled Private Sector Banks, 12 Scheduled Small Finance Banks, 4 Scheduled Payments Banks, 45 Scheduled Foreign Banks in India, and 43 Scheduled Regional Rural Banks.

Non-scheduled banks are not bound by the guidelines of the Reserve Bank of India (RBI) as they are not listed in the Second Schedule of the RBI Act of 1934. These banks maintain a Cash Reserve Ratio (CRR) with themselves, a practice that is distinct from scheduled banks that hold it with the RBI. Non-scheduled banks are local area banks and must have a Reserve capital of at least Rs. 5 lakhs. They also have limited access to borrowing from the RBI, only in emergencies. At the end of March 2024, two payment banks, viz., Jio Payments Bank Ltd. and NSDL Payments Bank Ltd., and two Local Area Banks, viz., Coastal Local Area Bank Ltd. and Krishna Bhima Samruddhi LAB Ltd., were non-scheduled commercial banks.

## THE EVOLUTION AND DEVELOPMENT OF HUMAN RESOURCE MANAGEMENT

The history and advancement of human resource management practices can be traced back to the flourishing European economy of the early 19<sup>th</sup> century. The decades of the 1920s through the mid-1930s are typically seen as the era of personnel administration. The increasing size of organisations and the pressure to enhance productivity created a need for processes to *recruit, select, train, maintain records, assess, motivate, manage, and boost* the performance of entry-level employees and those undergoing job orientation. During the 1940s and 1950s, the responsibilities of personnel administration expanded to address the growing challenges and demands of the workplace, which included craft and supervisory training and labour disputes that threatened both employee well-being and organisational efficiency.

During the 1950s and 60s, personnel management as a professional discipline matured, as we know it today, as characterised by most personnel management theories, practices, and processes. From the late 1970s to the early 1980s, we witnessed many developments and challenges that disrupted the stability of the economic, political, technological, and academic environments experienced in the 1960s. The 1980s and early 90s saw an uncertain, chaotic and often turbulent business environment. The direction shifted towards teamwork, employee empowerment, organisational learning and competence-based human resource management. Human resource management debates of the 1990s and 2000s focused on understanding these new concepts and their effectiveness in improving human resource management functions in modern organisations.

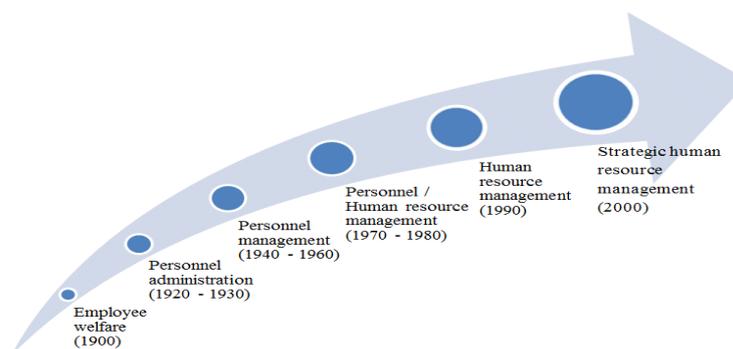


Figure 1: The evolution of human resource management (Adapted from Itika, J., 2011)

## PFEIFFER'S SEVEN HRM BEST PRACTICES

HRM as an academic discipline has developed dramatically over the past two decades. There is ample evidence supporting the observation that the development of HRM theory and practice has transformed and elevated the HRM function from a purely reactive function, mainly on administration and bureaucracy, to a proactive function actively pursuing strategy and integration. Thus, HRM is increasingly seen as a legitimate business activity linked to organisational strategy and achieving competitive advantages. Pfeiffer's seven "best practices" regarding implementing HRM are listed below:

- **Employment Security:** Understanding between employees and organisations about job satisfaction and stability is essential to prevent unnecessary recruitment, training, and employee development investments.
- **Selective Hiring:** Attracting individuals with the required knowledge, skills, and abilities to achieve competitive advantage and contribute value to the organisation. Organisations also need to ensure that prospective employees possess the necessary characteristics of trainability and commitment.
- **Extensive Training:** Takes into account every element of compensation and benefits to recruit suitable candidates with above-average salaries and maintain their retention by providing equitable compensation. Once a talent pool is hired, firms must ensure that the employees are fully harnessed and utilised. To execute this well, firms must be able to provide training and development opportunities, and commitment to T&D, although costly from a purely financial perspective, is an absolute must for leading-edge organisations.
- **Self-managed and efficient teams:** The active use of self-managed teams empowers employees to feel responsible within the firm, promotes creativity and innovation, encourages more efficient and faster decision-making, collaboration, and inclusiveness, and stimulates a high-performance team-based organisation that achieves its goals.
- **Competency-Based Compensation:** Covers every aspect of compensation and benefits connected to selecting the right candidates and keeping them by providing equitable compensation. Pfeffer argues that using compensation as a strategy offers high rewards for individuals based on their performance or team performance. Research shows many forms of rewarding employees, including but not limited to profit sharing, merit pay, stock ownership, and a variety of individual- and team-performance-based compensation schemes.
- **Reduced Hierarchical Differences:** Pfeffer asserts that organisational symbols such as physical space, language, dress, and labels convey messages to employees about their intrinsic value within the firm. For example, symbols that purport to promote unbiasedness suggest that all employees are equally valued, thus promoting a culture of collaboration and idea sharing. Removing barriers within firms is also called harmonisation. Harmonisation can be attained by implementing standardised terms and conditions of employment across the entire workforce.
- **Extensive financial and performance information sharing:** Open, honest two-way communication must be encouraged at all levels. Clear communication between the organisation and its staff nurtures a trusting environment and promotes the gathering of ideas from individuals by enhancing their understanding of business operations. It is an essential component that involves sharing information and maintaining transparency. It ensures that employees are informed about operational, financial, strategic, and other aspects.

## HUMAN RESOURCE DEVELOPMENT AND IIBF

The renowned Chinese philosopher Confucius once said, "Knowledge without practice is useless; practice without knowledge is dangerous."

Banks play a crucial role in developing human resources within the Indian banking sector. Advanced Management Programs (AMPS) and Short-duration Management Development Programs (MDPS) last up to nine to 12 months. These programs are designed for middle and senior management officials in banks and financial institutions to provide the required knowledge and management skills. The Indian Institute of

Management (IIM) Calcutta, the Indian Institute of Banking and Finance (IIBF), and the National Institute of Bank Management (NIBM) in Pune play a crucial role in these initiatives.

Formerly known as the Indian Institute of Bankers (IIB), a professional body for banks, financial institutions, and their workforce in India. The Indian Institute of Banking & Finance (IIBF) was established in 1928 as a company under Section 26 of the Indian Companies Act 1913. The Institute offers 3 flagship courses, 6 diplomas, 23 certificate programs, six blended courses in specialised areas, an MBA-Banking and Finance in collaboration with IGNOU, and an Advanced Management Programme with IIM-Calcutta. In a knowledge-driven sector such as Banking and Finance, it is essential for bankers to continually acquire, enhance, and refresh their knowledge. The leading institution for education and certification, with a strong emphasis on delivering high-quality content and instruction, offers the following major courses from IIBF:

Flagship Courses	Certificates	Management Programs
<ol style="list-style-type: none"> <li>1. Junior Associate Of IIBF (JAIIB)</li> <li>2. Certified Associate of IIBF(CAIIB)</li> <li>3. Diploma in Banking and Finance</li> </ol>	<ol style="list-style-type: none"> <li>1. KYC/AML</li> <li>2. International Trade Finance</li> <li>3. Strategic Management &amp; Innovations in Banking</li> <li>4. Micro Finance</li> <li>5. Resolution of Stressed Assets with Special Emphasis on Insolvency and Bankruptcy Code,2016 for Bankers</li> </ol>	<ol style="list-style-type: none"> <li>1. MBA (B&amp;F)-IGNOU</li> <li>2. Advanced Management Program (AMP)-IIM Calcutta</li> </ol>
<b>Diplomas</b>	<ol style="list-style-type: none"> <li>6. IT Security</li> <li>7. Prevention of Cyber Crimes and Fraud Management</li> <li>8. MSME</li> <li>9. Foreign Exchange</li> <li>10. Emerging Technologies</li> <li>11. Foreign Exchange Facilities for Individuals</li> </ol>	<b>Blended Courses</b>
<ol style="list-style-type: none"> <li>1. Diploma In Treasury Investment and Risk Management (DTIRM)</li> <li>2. International Banking &amp; Finance</li> <li>3. Urban Co-operative Banking</li> <li>4. Advanced Wealth Management</li> </ol>		<ol style="list-style-type: none"> <li>1. Certified Banking Compliance Professional</li> </ol>

### EMERGING CHALLENGES IN HRM

- Attracting and Retaining Top Talent:** Due to the industry's unique nature, HR professionals in the banking sector work with many employees, each with diverse skills and varying levels of experience. To attract and retain top talent, organisations should focus on building a strong brand image, fostering a positive work environment, and providing career growth by offering competitive compensation, benefits, and development opportunities. Prioritising diversity and inclusion, streamlining the recruitment process, and emphasising work-life balance are also crucial. To retain talent, organisations must provide ongoing development and training, recognise and reward contributions, foster a culture of engagement, offer flexible work arrangements, ensure work-life balance, be transparent and communicative, and monitor employee engagement.
- Upskilling and Reskilling:** Although they differ in their goals, upskilling and reskilling are both forms of training. Upskilling focuses on improving existing skills and competencies within a current role; Reskilling helps employees to gain the skills necessary for entirely new roles or fields, often involving significant skill transitions. The banking industry is rapidly transitioning. Innovative technologies like Machine Learning (ML), Artificial Intelligence (AI), and Blockchain will require effective use by well-trained and knowledgeable employees with a comprehensive understanding of the sector. AI and Machine Learning (ML) significantly impact the banking industry by enabling various functionalities like personalised

customer service, fraud detection, risk assessment, and credit scoring. These technologies help banks analyse data, predict customer behaviour, and automate processes, enhancing efficiency and customer experience.

- **Learning and Development:** L&D is a core HR function focused on enhancing employee knowledge, skills and capabilities, often called talent development or training and development. *L&D encompasses formal training programs and informal learning experiences*, a systematic process designed to improve employee engagement, job performance, and business outcomes. Financial institutions struggle to attract and retain skilled individuals to compete with other industries. Offering higher pay is not enough to inspire employees. They must create a united team, a pleasant workplace atmosphere, and a practical learning setting while promoting their employees' professional and financial development.
- **Recruiting and Retaining Millennials and Gen Z:** The demographic cohort born between 1997 and 2012 is Generation Z (Gen Z). **Gen Z, often called digital natives**, grew up with easy access to the internet and technology. This generation comes after Millennials and before Generation Alpha. Younger generations are in high demand to fill various roles and responsibilities in the banking sector. However, organisations may still struggle to retain young talent. According to a survey, 34% of banks responded that retaining younger talent is “no more challenging,” 54% answered that it is “somewhat challenging,” and 12% responded that it is “very challenging.”
- **Employee Performance and Engagement:** Employee engagement and performance are intrinsically linked. Employee performance is essential for enhancing the efficiency and effectiveness of banking operations. Programs focused on performance management, rewards, and recognition aim to maximise employee engagement and development and improve individual and organisational performance. Implementing these programs creates a challenge in the banking sector and visibility into workforce productivity. Additionally, engaging with field and white-collar employees is difficult due to limited access to HR-related functions on mobile devices.
- **Data Management:** Data management involves collecting, organising, protecting, and storing an organisation's data to enable analysis for business decisions. As organisations generate and utilise data at an extraordinary pace. Data management solutions become essential for making sense of the vast quantities of data. Banks manage large amounts of employee data. Employee data management involves having a plan for collecting data from employees, organising it, and retaining it to ensure compliance with legal regulations.
- **Disparate Systems:** The banking industry handles large amounts of employee data, stored across multiple systems. This disintegrated method and lack of collaboration lead to poor data management practices.
- **Information protection and confidentiality:** Banking institutions have relied on outdated infrastructure systems to manage consumers' and businesses' confidential and sensitive data. It also fails to comply with security and safety standards, particularly considering the increasing prevalence of cybercrime. Without a strong security framework, the risk of data breaches remains a significant concern.
- **Ensuring Regulatory Compliance:** Ensuring regulatory compliance requires organisations to adhere to all applicable laws, regulations, and rules that govern their operations. This process involves identifying relevant regulations, developing and implementing policies and procedures, providing employee training, and conducting regular audits to assess compliance. Considering continually changing government regulations and norms, HR professionals in the banking sector will continue to face challenges like flexible work arrangements and regulatory changes in ensuring compliance with these regulations.
- **Flexible Work Policies:** As flexible work arrangements are more universally accepted, organisations must adapt to ever-changing regulations and modify their internal processes and procedures to support a remote workforce. Hybrid and remote work create further compliance challenges for banks. A comprehensive review of policies will be essential before making work-from-home a permanent option, due to the need to safeguard confidential data that employees may handle outside the office.
- **Regulatory Changes:** HR teams in the banking industry must closely supervise regulatory requirements, procedures, and controls. This involves gathering and managing significant regulatory data volumes and

updating organisational processes, controls, and policies. This is a challenge, as outdated systems struggle to manage such extensive data.

- **Digitalisation:** The transformation of traditional banking processes and activities into digital form using technologies like online banking, mobile apps, and Artificial Intelligence. This includes offering services like online banking and mobile payments, and using technologies like blockchain for enhanced security and efficiency, which is referred to as Digitalisation. The digitalisation presents challenges for regulatory bodies, especially in areas such as Machine Learning (ML), Artificial Intelligence (AI), and Big Data Analytics. In banking compliance, the digital transformation remains obscure due to the absence of a universal approach to regulation. Over the last decade, digital innovation has progressed steadily, allowing authorities to adapt without causing significant market disruptions.

## THE WAY FORWARD

New developments in technology and methodologies are set to revolutionise systems and influence the industry's future. The banking sector is ready for significant growth and innovation in the upcoming years. HR managers must continuously look for creativity and innovation, which is the key to success. These landmark developments will bring about their challenges, and banking institutions must confront these issues directly and adapt swiftly to disruptive changes. The HR function will be more dynamic and strategic in this context. A modular and highly customisable HRMS platform can significantly support the HR department within the banking sector. Not just the effects of globalisation, but also various other factors such as technological advancements, the capabilities of existing employees, and the skill set and knowledge possessed by the younger generation, along with laws and regulations concerning employee benefits and rising competition in the business landscape, will present significant challenges that an HR manager must consider during the recruitment and selection of the most suitable employee.

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