

HUMAN CAPITAL MANAGEMENT IN SERVICE SECTOR: A CASE OF RURAL BANKS IN J&K STATE

Neeraj Sharma

Research Scholar, The Business School University of Jammu, India

Email: checkaubidhussain@gmail.com

ABSTRACT

The present study was undertaken to assess the linkages of Human capital management and Organizational effectiveness in Jammu Rural Bank and the rural Branches of State Bank of India and suggest ways to improve the organizational effectiveness and make the organizations under study competitive and capable of coping with the challenges and opportunities confronting the rural banking sector. The main conclusions drawn from the research work undertaken indicate various problem areas of the banks selected for the present study. The conclusions and major problem areas are identified as under along with the suggested solutions that would help the organizations to overcome such problems and develop an organization specific Human Resource Systems Model to enhance the organizational effectiveness.

Keywords: Human Capital, Organizational Effectiveness, Human Resource systems

INTRODUCTION

The human resource profession is continuously evolving over time. From Personnel Management, it has evolved into Human Resource Management and now, there are strong indications that this profession is beginning to gain momentum on its recognition as Human Capital Management. These evolutionary changes are driven by a multitude of factors both internal and external to the organizations. The emphasis today is to create value and recognize the human competence as the engine behind the creation of value to develop it as a strategic asset for the organization. Every business exists in a given environment, which provides opportunities and challenges. Building organizational capability requires specific and an integrated strategy, the integration of different initiatives of human resources provides value to the organization. This includes the integration of employee relations, compensation and benefits, organizational development, performance management, human resource development, manpower planning and procurement and labor management relation. Every human resource process, tool or technology should leverage talent to realize the organizational vision.

Not one facet of the total human resource system can be designed in isolation. The value chain relationship must be established to gage maximum organizational benefits. Indian banking has witnessed a sea change in recent years, reflecting the onset of deregulation, financial market liberalization and disintermediation. The measures aimed at deregulation have facilitated the much-needed operational flexibility. With traditional activities, an important development is the set of initiatives taken by banks to diversify into new financial services such as hire purchase, mutual funds, leasing, etc. to ensure growth of non-fund

based activities. Furthermore, rationalization of the branch network has been undertaken as a means of increasing efficiency.

The concept of human capital is not a particularly new one: the term was first coined in the 1960s by the economist Theodore Schultz and was centred on the division of labour and how one could compartmentalize employees into specific categories of seniority. Employees were primarily seen as being a cost, rather than a form of capital and contributor of value to the organization's financial and non-financial performance. The 1980s saw a rise in the 'human resources' function within business, which recognized the importance of employee management in improving operational efficiencies via training and development and job satisfaction. Fast forward to the 2000s, and people are officially recognised as adding value to the business from more than just an efficiency perspective – they constitute an intangible asset in terms of reputation, intellectual capital, expertise and knowledge and innovation, as well as contributing to strategy achievement.

Although it is now acknowledged that human capital is of real value to business and should be managed accordingly, there is still little credible information communicating this view of HCM in annual reports and sustainability reports along with other quantitative and narrative disclosures. Reporting is still largely voluntary in the UK, aside from the clause in the updated Companies Act (passed November 2006) that asks for narrative disclosures, in the annual business review, on non-financial issues such as environment, community and employees. Nonetheless, it is ultimately left to directors' discretion to decide whether this information is material to the business and therefore should be included in disclosures, and as a result many organizations disclose the bare minimum or simply state that it is not considered sufficiently important. In response to this lack of transparency on HCM issues, in 2003 the UK government set up the Accounting for People Task Force, whose aims were to look at performance measures used to assess human capital and best practice in subsequent reporting. The Task Force stated that HCM should be treated as a strategic issue and the project sought to analyze, measure and evaluate how employee policies create value. Business strategy should be directly aligned with the management of human capital, and this alignment should be clearly stated within company reporting. The advantages of doing so are numerous.

- It demonstrates externally that the organization takes HCM seriously, and could therefore help attract new talent to the business.
- It responds to any stakeholder concerns there may be on employee issues.
- The data collection and internal engagement involved in preparing a report can assist in identifying risks that may have otherwise been left unaddressed.
- It can increase the trust of existing employees, who may not be aware of how their organisation perceives human capital and how it is managed.
- It can improve internal management systems through data and information collection, trend analysis and target setting.
- It provides investors, especially sustainable and responsible investment (SRI) analysts, with the information they require to make their decisions. (A piece of CIPD research found that investors currently take little notice of workplace metrics because of low comparability and consistency in the way they are presented.).

Examples of issues that should be managed internally and reported on include the incorporation of HCM into strategy setting, employee engagement (both on strategic issues and regular, everyday management issues), individual employee KPIs on diversity, equal opportunities, training and development, health and safety and wellbeing, and employee absences and turnover. It is important to note that providing quantitative data on these issues is not sufficient as the data are meaningless without an explanation of any observed trends, what they mean for the business and how HCM is being used to exploit opportunities and manage risks within the business – both an account of past performance and forward-looking narrative information.

REVIEW OF LITERATURE

Human capital refers to the knowledge, skill, and experience of the employees. Structural capital refers to the extension and manifestation of human capital. It includes tangibles such as the information technology systems, brand and company images, customer databases, organizational concepts and manuals.” [Bucklew and Edvinsson, 1999] From other, social and economics points of view, Eva Gamarnikow and Antony Green summarised Human Capital thus: “In economic, capital refers to resources (whether financial or physical) that are used for the production of goods. It can also refer to all resources that bring in income. Social Capital and Human Capital are terms used in the social science to discuss analogous concepts with regard to social resources derived from social interaction (social capital) and individual development (human capital).“ [Gamarnicow, 2003].

Human capital can be considered the most important driving force behind innovation creation (Bontis, 1998 ; Lev, 2001 ; Zingales, 2000) . Thus, it is a key factor for sustainable competitive advantage (Huselid, 1995 ; Pfeffer, 1994 ; Prahalad and Hamel, 1990 ; Wright *et al.* , 1994). Furthermore, human capital is often mentioned as a company’s most important resource (eg, Guenther and Beyer, 2003 ; Sveiby, 2001). Hence, human capital is highlighted by the strategic management approach against the background of the resource-based view (Barney, 1991 ; Grant,1996 ; Penrose, 1959 ; Prahalad and Hamel, 1990). Human capital can be defined as a company’ s achievement potential with regard to its workforce, its labour capacity and its workforce capabilities. It includes the knowledge and capabilities of the company ’ s workforce, as well as its motivation to make use of those qualities (eg, Becker, 1983 ; Schultz, 1961). Accordingly, human capital reporting (HCR) can be defined as a company ’ s reporting system, which provides information about its workforce ’ s knowledge ,capabilities and motivation. Comprehensive reporting enables the recipients of such information to gain better insights into human capital potentials and properties. Hence, it becomes easier to assess the company’s effectiveness. The revolutionary transformation which the organizations are facing today has intensified due to Information Technology. The knowledge based economy prompts the organizations to develop customer relationships that can survive in the present turbulent and competitive environment. This is possible by innovations and production of customized high quality products and services at low cost. This is how information age has brought forward the importance of the internal customer, i.e., the employee. Sustainable competitive advantage in this present world can be attained by mobilizing the employees’ skills and channelizing their attitudes for continuous improvements in process capabilities, quality and response time. (Kaplan & Norton).

The banking sector in India has become an agglomeration of big and small, public and private, old and new, viable and non-viable banks. There are remarkable diversities in their sizes, organizational patterns, geographical presence and functional specializations. At present only the scheduled banks are in operation. There is a hybrid variety among the scheduled banks, namely the cooperative banks classified as scheduled banks, based on their capital and volume of business. Operating only in the urban areas they retain their cooperative banking culture, but profess to be commercial banks. There are regional rural banks operating exclusively in the rural areas. Diametrically opposite to them, there are the new banks functioning only in the urban and metropolitan centers.

The Indian Banking sector, therefore, is a strange combination of traditional and modern banking institutions, procedures, policies and personnel. Traditional banking activities like the pledging of gold ornaments prevail in rural branches, while online selling of shares in dematerialized form is handled in the metropolitan market. Bank branches have emerged as the retail outlets of the financial supermarkets. Both the sophisticated branded products and the locally demanded traditional services are sold through them. Rural Banking has become an integral part of the banking system, with a chequered history of a quarter century. It is perceived that there are a large number of losses incurring to the rural branches. The volume of business transacted at the rural branches is much lower than that of the Urban and metropolitan branches. The rural depositors constitute about 25 % of the total depositors of the public sector banks. In the case of borrowing accounts, the share of the rural branches is much higher at 39%, because of their participation in all the populist lending programmes like the IRDP, DWACRA, etc, where branch level targets are imposed on the rural branches. Regional Rural Banks were established in 1975 in accordance with the ordinance promulgated by the President of India on 20th September 1975, following the recommendations of working group under the chairmanship of M Narsimham. The main objective of the said ordinance was to establish adequate number of Regional Rural Banks in the entire country to provide credit and other facilities to small and marginal farmers, agricultural laborers, artisans and to small rural entrepreneurs. Accordingly state governments and sponsor banks are advised to cover the entire rural sector under the Regional Rural Banks. Jammu Rural Bank, which is one of the three Regional Rural Banks working in Jammu and Kashmir State, was established with its head office at Jammu, on 12th March, 1976. It has been making steady progress in its expansion programme overtime. Jammu Rural Bank started with 20 branches in the year 1976 in Jammu District. With the passage of time and increasing needs of the people, the total number at the end of 1985 reached to the level of 94. Due to non availability of licenses from Reserve Bank of India. The total number of branches was same since 1995. The two branches located in far flung areas had become unviable and therefore closed. As such only 92 branches are functional at present. The bank has been making every possible effort to boost up rural economy with expansion of its area of operation. The Jammu Rural Bank branches are spread over only four districts of Jammu province namely Jammu, Kathua, Rajouri and Poonch. However, maximum number of branches is in Jammu district followed by Rajouri, Kathua, and Poonch.

RESEARCH APPROACH

The contribution of human capital management to the overall health and its effectiveness as an area of research has assumed great significance in view of the gearing up of the Indian economy to ensure its global placement. The role of banking in general and the rural banking

in particular towards this end is significantly critical in the Indian context and this is only possible by developing human resources to attain competitive advantage. The present study was conducted by administering a duly tested questionnaire (Bhasin, J., 2010), KMO =0.89. The analysis showed that there is need to focus on human capital management issues.

Table 1. Demographic Profile of Respondents

N=172

Description	No. of Respondents	% of Respondents
Position		
Sr. Manager	17	10
Manager II	35	20
Manager I	75	44
Cashier cum Clerk	45	26
Age		
25-35	17	1
36-45	35	21
46-55	75	70
56 and above	45	8
Qualification		
12th	35	20
Graduation	68	40
Post Graduation	67	39
Above P.G.	2	1

Table 2. Frequency Distribution- Human Capital Management Index (JRB)

N=172 (100%)

Statements	Mean Freq. Slab indicating Max. freq	%
Clear HRP	2-3	52.9
Right People at Right Job	2-3	59.3
Clear Recruitment Policy	1-2	69.2
Utilizes both internal and External Source of recruitment	1-2	90.7
Satisfied with the selection procedure	1-2	88.4
Employees well versed with their roles in the present position	1-2	51.2
all the staff members clear about procedural formalities	2-3	56.4
Employees know the job description	2-3	57.5
Employees competent and well equipped to handle loan cases	4-5	87.8
Employees know the mechanism of increased upward and downward communication	2-3	56.4

Table 2. Frequency Distribution- Human Capital Management Index (JRB)

N=172 (100%) (Contd....)

Statements	Mean Freq. Slab indicating Max. freq	%
Employees trust each other	4-5	91.3
Employees work in a team effectively and efficiently	4-5	92.5
Employees are able to set up procedures for problem solving collaborative culture	4-5	86.1
Employees not afraid to discuss feelings with superiors	2-3	55.2
Employees not afraid to discuss feelings with subordinates	2-3	55.2
Employees are able to lay down self development needs	2-3	62.2
Happy with Training and Development Policy	2-3	68.0
Training facilitates employees to apply learning in various job situations	2-3	61.6
Training helps the organization to update itself to the future needs of the organization	2-3	63.2
Performance Appraisal System helps the employees in understanding Strengths and weakness	2-3	71.0
Performance Management System provides a dialogue between superiors and subordinates	2-3	75.0
results of Performance Appraisal System are fair and communicated	2-3	73.9
There is a set pay structure with scales based on grades	4-5	83.2
Salaries are competitive as compared to other banks	4-5	56.9
Satisfied with the benefits offered by the organization	2-3	58.2
Organization carries out counseling and develops competencies	2-3	71.5
There is no difference between the stated values and actual behavior	2-3	79.7
Organization follows a proactive approach in dealing with the issues	2-3	77.3
I have autonomy in the organization	2-3	82.6
There is strong collaboration between the team members	2-3	51.7
Organization lays emphasis on quality decision making	1-2	65.1
Conditions of workplace are good	2-3	68.0
Quality circles in the organization	1-2	84.9
Employees can take decisions without much consultation with the seniors	1-2	73.8
Organization empowers the employees	2-3	78.5
Best practices in terms of integrating technologies, human resource policies and systems	1-2	77.9

Table 2. Frequency Distribution- Human Capital Management Index (JRB)

N=172 (100%) (Contd....)

Statements	Mean Freq. Slab indicating Max. freq	%
Human Resource Audit System	1-2	92.4
HRIS helps in Decision Making	1-2	80.3
Employees possess traits of leadership	2-3	56.4
Work interesting and challenging	2-3	64.5
feeling of belongingness towards organization	2-3	62.2
strong sense of attachment with the work place	2-3	68.0
Employees like to be retained in this organization though they get equal opportunity	2-3	70.9
Flexibility in organizational policy	2-3	60.5

FINDINGS, CONCLUSION AND SUGGESTIONS

The analysis of responses shows that the mean score for Organizational Development as perceived by the employees is 2.84. This shows that there is a need for human capital management. Research shows that proper training contributes to the development of individuals and hence the organization. Research studies show that quality training and development programmes increase the performance levels of an employee on their present and future job assignments thereby leading to an overall improvement in the quality of service or climate in the organization. The banks have also realized the importance of training in imparting new knowledge, skills and in developing the right attitude. The data compiled reveals that more than 60% of the employees do not lay down their self development needs and feel that the training does not facilitate the employees to apply learning in various job situations. The executives have to get the work done by managing the competencies of their subordinates. Hence, the executives' role demands the widespread competence and understanding of the legal, operational and personnel aspects of organizations, combined with high achieved capacity for managing human resources. The executives have to play an important role in developing others.

The analysis of the remarks given by the employees of the banks under study reveals that the self development efforts put in by the bank employees are nearly negligible. This indicates that the bank personnel have to put their best efforts to enhance their capacities and competencies by handling higher responsibilities and undergoing various career advancement courses. The bank personnel have to actively participate in different types of refresher and other training programmes so that they can learn new techniques of modern banking operations. Thus, they would become more confident and effective while performing their routine jobs either dealing with customers or preparing various bank records.

The management at the banks in the rural area should implement an integrated framework of human resource systems for attaining organizational effectiveness and also should be backed up with technology based management information system for timely and informed decision making.. The analysis of the data shows that there is an urgent need to network the branches

of the JRB for timely generation and consolidation of data from various branches spread in the interiors. In short, both the rural banks and especially the Jammu Rural Bank has to reorient the human resource systems to attain organizational effectiveness.

At present, the major focus of rural banks is efficiency by superior product positioning and higher employee productivity skills. The competition in the rural banking industry is also likely to intensify in the near future. Accordingly, the rural banks also need to transit from being inwardly focused to becoming true market-facing banks.

The environment scanning shows the importance of Human Resource Systems for achieving organizational excellence. Clearly, the approach to Human Capital Management will have to change in tune with the fast changing banking networked environment. SBI for example, carries out Training and Development Programmes regularly but specific Training Programmes for rural banking have to be developed. The focus must shift from generalist orientation of the staff to knowledge orientation, i.e. the ability to imbibe and absorb technology. ICT (Information Communication Technology) has to be imbibed in the rural areas. There is an urgent need for training for up gradation of different types of skills for redeployment, for changing the mindset and attitudes. The rural banks under study should revamp their human resource departments and evolve appropriate policies to make the best use their human capital.

In this backdrop, the proposed model which suggests the schematic linkage of human resource systems with organizational effectiveness has been developed.

The Model argues for a fit between the environment and the human capital management. The organizations should strive hard to achieve a culture of service excellence by establishing practices and procedures to reward the behaviors, which support this culture of trust, openness, honesty and sincerity. The performing culture is the bedrock of every organization, but , there are two major challenges in developing a performing culture, one is the performance oriented mindset and the other is developing a positive work culture.

Human Resource Management Systems needs to act as a facilitator by providing process to enable the organization to identify the gaps in people's capability to ensure a systematic capability improvement in the organization. Human Resource is vital resource for organizational effectiveness as it appreciates with the passage of time. Development of human resources of an organization is vital for its success. The human resource has got unlimited capacities and capabilities that can be developed with proper and balanced linkages between the human resource systems and the organizational goals. The involvement, sincerity, creativity and dedication of human resources to the jobs are the outcome of the organizational work environment and organizational culture The organization should therefore, create a working culture that enhances their growth and fulfills their expectations as conducive work climate ultimately improves the performance

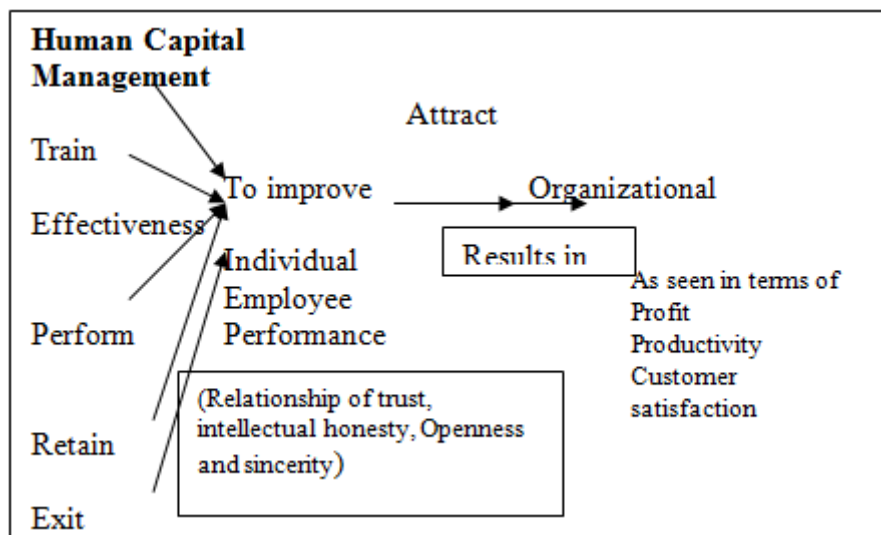


Figure 1. Linking Human Capital Management and Organizational Effectiveness

REFERENCES

1. Annual Reports of Jammu Rural Bank, 2005,2007,2009,2010
2. Barney , J . (1991) ‘ Firm resources and sustained competitive advantage ’ , *Journal of Management* , 17 (1) ,99 – 120 .
3. Becker , G . S . (1983) *Human Capital. A Theoretical and Empirical Analysis, with Special Reference to Education* , 2nd edn., University of Chicago Press,Chicago .
4. Bhasin J.(2010), Human Resource Systems and Organisational Effectiveness, Excel Publications, New Delhi.
5. Bontis , N . (1998) ‘ Intellectual capital: An exploratory study that develops measures and models ’ , *Management Decision* , 36 (2) , 63 – 76 .
6. Bontis , N . , Dragonetti , N . C . , Jacobsen , K . and Roos , G . (1999) ‘ The knowledge toolbox: A reviewof the tools available to measure and manage intangible resources ’ , *European Management Journal* ,17 (4) , 391 – 402 .
7. Bontis , N . and Fitz-enz , J . (2002) ‘ Intellectual capital ROI: A causal map of human capital antecedentsand consequents ’ , *Journal of Intellectual Capital* , 3 (3) , 223 – 247 .
8. Grant , R . M . (1996) ‘ Toward a knowledge-based theory of the firm ’ , *Strategic Management Journal* , 17(Special Issue: Knowledge and the Firm (Winter)) 109 – 122 .
9. Guenther , T . and Neumann , P . (2005) ‘ Measuring human capital – A meta-analytic structural equation analysis of cause and effects ’ , *Dresden Papers of Business Administration* , 100 (05) .
10. Huselid , M . (1995) ‘ The impact of human resource management practices on turnover, productivity,and corporate financial performance ’ , *Academy of Management Journal* , 38 (3) , 635 – 672 .
11. Kaplan, R. S., Norton, David P (2004). "Measuring the strategic readiness of intangible assets." *Harvard Business Review* 82(2): 52-64.

12. Lev , B . (2001) *Intangibles – Management, Measurement, and Reporting* , Brookings Institution Press, Washington .
13. Lev , B . (2004) ‘ Sharpening the intangibles edge ’ , *Harvard Business Review* , 82 (6) , 109 – 116
14. Penrose , E . T . (1959) *The Theory of the Growth of the Firm* , Blackwell, Oxford .
15. Pfeffer , J . (1994) *Competitive Advantage through People:Unlashing the Power of the Work Force* , HarvardBusiness School Press, Boston .
16. Pfeffer , J . (1998) *The Human Equation – Building Profitsby Putting People First* , Harvard Business School.Press, Boston .
17. Prahalad , C . K . and Hamel , G . (1990) ‘ The core competence of the corporation ’ , *Harvard Business Review* , 68 (3) , 79 – 91 .
18. Schultz , T . W . (1961) ‘ Investment in human capital ’*The American Economic Review* , 51 (1) , 1 – 17 .
19. Sveiby , K . E . (1997) *The New Organizational Wealth –Managing and Measuring Knowledge-Based Assets* , Berret-Koehler Publishers, San Francisco .
20. Sveiby , K . E . (2001) ‘ A knowledge-based theory of the fi rm to guide strategy formulation ’ , *Journal of Intellectual Capital* , 2 (4) , 344 – 358 .
21. Sveiby , K . E . (2007) ‘ Methods for measuring intangible assets ’ , <http://www.sveiby.com/Portals/0/articles/IntangibleMethods.htm> , accessed 19 July 2010 .
22. Wright , P . M . , McMahan , G . C . and McWilliams , A . (1994) ‘ Human resources and sustained competitive advantage: A resource-based perspective ’ , *InternationalJournal of Human Resource Management* , 5 (2) ,301 – 326
23. Zingales , L . (2000) ‘ In search of new foundations ’ *The Journal of Finance* , 55 (4) , 1623 – 1653 .