HUMAN CAPITAL IMPACT ON BANKING SECTOR PERFORMANCE IN INDIA – A STUDY

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Abstract: *Human capital management (HCM) is responsible for the people dimension of an organization. It has a significant role to play in today's world in that it not only has to assist the organization in achieving its strategic direction, it also has to represent and advocate for the organisation's employees. At its broadest level, HCM comprises the functions of staffing, development, motivation, and maintenance. In other words, hiring competent people, training them, helping them perform at high levels, and providing mechanisms to ensure that these employees maintain their productive affiliation with the organisation. This paper examines what are issues and difficulties raised by different researcher and banking administration monitoring professionals and boards in regard of human asset improvement named as "Human Capital Management".*

Keywords: Human Capital Management, Economic value, HRD, Wealth, emerging challenges

Introduction

Present day business approaches view and express the workers in terms of resource. They are dealt with as most vital resource named as "Human Capital". The expression "Human Capital" is in some cases utilized synonymously with "human resources", though human capital regularly alludes to a more restricted view i.e. the information the individual encapsulate and add to monetary development. The human resource is, of all resources appointed to man, the most beneficial, the most flexible and the most resourceful. Human resources constitute the most essential and irreplaceable constituent in any economy.

The concept of human capital as an economic asset was first given in 1960 by Theodore Schultz. Presently in the period of the most genuine economic emergency since the 1930s, policy makers and experts in governments and commercial organisation are looking at their workers as their most essential resource in recuperation of economic stability and attaining growth.

Human capital is the supply of information, propensities, social and identity traits, including imagination, encapsulated in the capacity to perform work in order to deliver monetary esteem. On the other hand, Human capital is a gathering of assets—all the learning, gifts, aptitudes, capacities, encounter, insight, preparing, judgment, and knowledge had exclusively and all in all by people in a populace. These assets are the aggregate limit of the general population that speaks to a type of riches which can be coordinated to achieve the objectives of the country or state.

Nowadays, we are moving towards a learning economy where interests in intangibles resources are viewed as crucial components to esteem creation in business organisation, and the development of this approach is changing the entire procedure treatment to execution in changing Human Resource work. Presently, there is a general understanding that scholarly capital, all the more particularly human capital is basic to an association's prosperity, and that the HR centre must be more considered in the new information based economy period.

For advancement of "Human Capital" to perform at competitive level with set benchmarks, the HRD development in banks is progressively working ahead. A lion's share of the banks have setup isolate HRD Departments inside a time of working; HRD Department in a few banks have increased certain noteworthy achievement. The thorough feedback of the displaying HRD work as "garish connection" can't be defended. Then again, the reality of the matter is that HRD Department's working in a greater part of the banks is a long way from satisfactory level.

There are many banks where alongside training, different exercises like manpower planning and performance appraisal have been presented. However, some different banks have made fast walks similarly as the presentation of new HRD exercises and sub-frameworks, for example, systematic training, quality circles and staff meetings are concerned. Other than presenting these frameworks, a few banks have likewise taken critical endeavors in idealizing certain frameworks like training and performance appraisal. In any case, there is an expansive spread inclination in banking industry that there are no adequate result from the HRD capacities and framework at the operational level are directed to level of customs.

Human capital refers to the collective skills and knowledge of the total workforce of an organization that hold economic value for the organization. It enhances the productivity and profitability of the organization. In order to ensure that human capital generates more wealth as well as leads to value creation, it is important that human capital is utilized and managed efficiently and effectively. When the value of the people is enhanced, it enhances the value of the organization.

According to economics theory, two of the main reasons for pooling of human resources into companies are the cost reduction that is achieved with partitioning of work and the need for management of work, which is divided between numerous employees. The distinction in value that people bring to the organization had been lost in the past as financial capital, physical capital and technological capital were viewed as the driving energies behind the success of organizations.

Objectives and Methodology of the study

The main objective of the study was to establish the effect of human capital management drivers on organizational performance. The specific objectives are to: determine the effect of leadership practices, identify the effect of employee engagement, establish the effect of knowledge accessibility, investigate the effect of workforce optimization and determine the effect of learning capacity on organizational performance. The study was anchored on theory of Resource based view, human capital theory, goal theory and contingent leadership theory. The study adopted a case study research design and stratified random sampling. Qualitative and quantitative technique of data analysis was used.

Review of Literature

A number of studies have been undertaken in the developed countries on the relationship between value added intellectual capital and firm performance. Bontis et al. (2000), argued that structural capital is positively associated with the performance of the company irrespective of the industry type. Firer and Williams (2003) found that physical capital influences the performance of companies in South Africa.

Nzuve and Musyoka, (2012) conducted a study to determine the relationship between human capital management practices and performance of Commercial Banks in Kenya. The study brings to the fore front, the need to appreciate the intellectual capital element as an important resource worth analyzing and hence determining its effect on the financial performance of any firm. The researchers used a cross sectional survey design as well as a correlation research. The study concluded that most commercial banks adopt human capital management practices to an average degree.

Pulic (2004) studied the impact of intellectual capital on the banking sector. He measured Australian banks' intellectual capital performance (1993 to 1995) and Croatian banks' capital performance (1996 to 2000) using the VAICTM model. The results showed that, performance rank and classic accounting rank gave banks significantly different ratings. In a study of service and nonservice industries in Malaysia, Bontis (2004) identified three essential components of intellectual capital: human resource capital, capital structure and customer capital. The results showed thatcapital structure has great influence on the performance of two sectors. Yet, although humanresource is vital to both industries, it had a greater influence on service sector firms than on nonservice sector firms. According to Kemboi et al (2014), intellectual capital has a significant and positive impact on employee performance. They concluded that firms should invest more in human capital through training and development.

Abbasi and GaldiSedghi (2010), studied the impact of efficiency of each component of intellectual capital on the financial indicators of 99 firms listed on TSE over the period 2000-2003. The findings showed that the efficiency of each element of intellectual capital had a positive and significant effect on the return on equity. The results further showed that the efficiency of physical capital and human capital had a positive effect on earnings per share (EPS) while the effect of efficiency of the structural capital coefficient was negative. These results therefore implied that firms, which had a higher level of intellectual capital, preserved a better financial performance. Huang and Hsueh (2007), study on intellectual capital in consulting firms also signify intellectual capital to be the summation of all knowledge and capabilities of every employee that brings about performance and creates wealth for the enterprises. According to Zéghal and Maaloul (2010), intellectual capital had a positive impact on financial and economic performance of a firm.

Mojtahedzade et al. (2010) studied the relationship between intellectual capital and its elements with the performance of the insurance firms. The findings showed that intellectual, human, customer, and structural capital had a significant relationship with firm performance.

Ahangar (2011) investigated one Iranian company in a period of thirty years. The results showed a major effect of intellectual capital on profitability and productivity of the firm. Further, Bin Ahmad and MezealMushraf (2011) studied 320 Malaysian firms reported a positive relationship between intellectual capital and financial performance. Similarly, Murthy and Moritsen (2011), found that financial and physical capital had an effect on intellectual capital and also helped in improving the performance of firms.

Mojtahedzade et al. (2010), studied 3100 small and medium sized companies in Kenya. The results showed that there is a positive and significant relationship between intellectual capital and growth of these companies. Further, Ahuja and Ahuja (2012), on India's banking sector, found that there isa positive effect of efficiency of intellectual capital on expected future performance of a firm.

According to Shakina and Barajas (2012), in a study of 752 Russian and European firms over a period of 6 years, there is a positive relationship between the quality of intellectual capital efficiency and the financial performance of firms.

The Indian Banking System

The Indian banking framework comprises of 26 public sector banks, 20 private sector banks, 43 foreign banks, 56 regional rural banks, 1,589 urban cooperative banks and 93,550 rural cooperative banks, notwithstanding cooperative credit institutions. As on September 2016, the exceptional credit to NBFCs remained at US$ 55.27 billion, developing at 25 for every penny on year-on-year premise. Bank credit to non-banking finance companies (NBFCs) has touched the most elevated in three years.

Indian banks are progressively concentrating on receiving incorporated way to deal with risk management. Banks have just grasped the worldwide banking supervision accord of Basel II. As indicated by RBI, larger part of the banks effectively meet capital necessities of Basel III, which has a due date of March 31, 2019. The vast majority of the banks have set up the system for asset-liability match, credit and derivatives risk management.

Table 1: Indian Banking System

Banks	PSB	Pvt. SBs	Foreign Banks
Number of banks	26	20	43
Total business (INR billion)	102,185	25,391	5,517
Number of employees	801,659	269,941	25,384

Source: Reserve Bank of India

Deposits under PradhanMantri Jan DhanYojana (PMJDY) are developing. As on November 09, 2016, US$ 6,971.68 million were stored, while 255.1 million records were opened. Rising incomes are required to upgrade the requirement for banking services in rural areas and in this manner drive the development of the sector; programs like MNREGA have helped in expanding rural salary supported by the current Jan DhanYojana. The Reserve Bank of India (RBI) has loose its branch licensing policy, accordingly permitting banks (which meet certain financial parameters) to set-up new branches in level 2 to level 6 focuses, without earlier endorsement from RBI. It has stressed the need to concentrate on spreading the compass of banking services to the un-saved money populace of India.

Role of Human Capital Management in Banking Sector

Human capital management (HCM) is responsible for the people dimension of an organization. It has a significant role to play in today's world in that it not only has to assist the organization in achieving its strategic direction, it also has to represent and advocate for the organisation's employees. At its broadest level, HCM comprises the functions of staffing, development, motivation, and maintenance. In other words, hiring competent people, training them, helping them perform at high levels, and providing mechanisms to ensure that these employees maintain their productive affiliation with the organisation. Of all the resources available to an organization, human resources are considered the most important for attaining the objectives of the organization.

Hence, employees are now variously referred to as human capital, human assets, or human resources. An organization may have huge capital and the most advanced machinery, but if it does not have capable, motivated and high performing employees, the organization is not likely to demonstrate sustained level of performance. Since all physical and capital resources depend on people for their efficient use, maintenance and management, the quality of the people of an organization is important in attaining competitive advantage. The term capital refers to wealth, money, or property. Capital is used to generate more wealth for an organization. When employees are referred to as capital, it is implied that they are the resources that generate more 'wealth'.

Human capital refers to the collective skills and knowledge of the total workforce of an organization that hold economic value for the organization. It enhances the productivity and profitability of the organization. In order to ensure that human capital generates more wealth as well as leads to value creation, it is important that human capital is utilized and managed efficiently and effectively. When the value of the people is enhanced, it enhances the value of the organization. According to economics theory, two of the main reasons for pooling of human resources into companies are the cost reduction that is achieved with partitioning of work and the need for management of work, which is divided between numerous employees. The distinction in value that people bring to the organization had been lost in the past as financial capital, physical capital and technological capital were viewed as the driving energies behind the success of organizations.

The transition from personnel management to human resources management saw an increase in awareness that the human resources in an organization were equally critical to the overall businesses success as were technology and other physical resources. At the core of the value that human resources bring to the organization is the fundamental belief that the knowledge, skills, attributes and brain power that an employee possesses, are viewed as the organization's human capital. When collectively embraced the composition of an organization's human capital is considered a key strategic business advantage that organizations possess. Notwithstanding the investments that are being placed in human capital and talent management, companies guided by human resources professionals must be creative, innovative and ingenious by deciding on non-conventional ways to recruit. The introduction of job testing, competency standards and enhanced performance management systems must be explored in an attempt to ensure that recruitment and retention efforts are successful within organizations.

Human Capital Management—the end-product of the human resource (HR) function—receives far less corporate focus than it deserves. Human capital defines and categorizes a person's embodied

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knowledge, health, skills, and abilities as they affect production, exchange, and entrepreneurship, as well as disembodied human knowledge, as reflected in publications, patents, and other forms of intellectual capital that contribute to the formation and transfer of new knowledge and innovation. While paralleling physical capital—including buildings, factories and machines—as a means of production, human capital also has a special role in promoting productivity growth and economic development. Individuals, families, firms, and societies invest in human capital via education, health care, and organized research. Individual and family incomes depend in large part on human capital attainments.

Thus, human capital is a major input affecting production in both the marketplace and in the household sector, as well as a key determinant of wealth creation and social mobility. Studying the role of human capital in the modern information economy is critical for understanding the continuing transformation and expansion of individual and societal well-being in our increasingly global economy. Human capital management (HCM)'s belief that human capital is an organisation's most important resource provides HR (including learning & development) with a new, strategically important role. This moves past the debate about whether HR should be given equal status with other functions to create a role for HR that is second only to the CEO (perhaps that of a Chief People Officer). This new role concerns the development of business strategy based upon the people in the organisation: their particular capability, or their potential to develop a particular capability.

It is also about ensuring that, at least on some occasions and for at least some of the time, the business strategy should be informed by the people management strategy rather than solely the other way around. However, the role is not purely focused on strategy. The need to develop organizational capability through people means that Ulrich's employee champion or employee advocate role is an essential part of the position. People need to be managed and supported effectively if they are going to keep their human capital invested in the organisation. They also need to see the returns on their investment; so one requirement of HR is to develop a clear Employee Value Proposition (EVP) that articulates what an individual employee can expect to receive in return for his/her contribution.

And HR needs to execute new activities, such as organisation design, knowledge management and network development that do not figure largely in HR's traditional concerns. Intellectual capital Human resource management (HRM) has already emerged as a separate discipline to 'personnel'. In personnel management, people management strategy is developed through a process that is separate to the development of the business strategy and in which the primary focus of attention and effort is within the HR function and on the current state. In HRM, people management strategy links to and cascades from the business strategy. It is also forward looking, focusing on making incremental changes to the current state to achieve the objectives in the annual business plan.

Conclusion:

The skills and capacities that reside in people that are put to productive use can be a more important determinant of the nation's long term economic success and that of an organization. The contribution of the financial sector to Gross Domestic Product has remained unstable and showing slow growth. The Bank's success relies heavily on human capital management drivers such

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as leadership practices, employee engagement, knowledge accessibility, learning capacity and workforce optimization.

Human capital is a major input affecting production in both the marketplace and in the household sector, as well as a key determinant of wealth creation and social mobility. Studying the role of human capital in the modern information economy is critical for understanding the continuing transformation and expansion of individual and societal well-being in our increasingly global economy. Today, Indian banks are operating in a liberalized and technology neutral environment where there is little product and price differentiation exists. Therefore, to sustain and grow further in the fierce competitive sphere, banks are necessitated to focus attention on Human Assets since the delivery of service is only the differentiating factor which crucially depend on the attitude and efficiency of the staff interacting with the customers. In the above backdrop, Human Resources has attained utmost importance and banks have been evolving appropriate strategies to attract, manage, develop and retain these assets to meet the emerging challenges.

The study concludes that it is possible to use human capital management drivers to benchmark organizational capabilities, identify human capital management strengths and weakness, and link improvements in specific human capital management practices with improvements in organizational performance and obtain sustainable competitive edge.

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