V Leeladhar: Managing talent in banks - a few thoughts

Speech by Mr V Leeladhar, Deputy Governor of the Reserve Bank of India, on the occasion of the centenary celebrations of the Corporation Bank, Bangalore, 12 March 2005.

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It gives me great pleasure to be in your midst today. A hundred years is, indeed, a landmark event in the history of an institution and as Corporation Bank celebrates its centenary, it joins the rank of the ‘venerables’. The establishment of the Corporation Bank with its humble beginnings in 1906 was during an eventful period in India’s economic history. It was a brave new era which saw a flurry of activity when a host of what were then termed ‘native’ banks were set up in India, spurred, in no small measure, by the forces of a resurgent nationalism and the yearning for self determination. These forces, later coalesced into the Swadeshi Movement, helped draw out the latent entrepreneual talent of the time in the field of banking to set up banks oriented towards the indigenous communities which they sought to serve.

With the onset of liberalization, banks in India are under pressure to change the ways in which they do business. They now face an increasingly competitive environment not only from banks but also from non-bank financial institutions. Explosive growth in IT has changed the way individuals interact with banks and the way banks respond. In the changed scenario, success will depend on the ability of banks to leverage the human potential and capabilities. This speech is an attempt to reflect on the new challenges facing banks in the management of human resources.

The period 1904 to 1913 saw a bank being set up virtually every year – prominent amongst these were the Bank of Burma established in 1904, the Bank of India, the Corporation Bank and the Canara Bank in 1906, the Indian Bank in 1907, the Bank of Baroda and the Punjab and Sindh Bank in 1908, the Central Bank of India in 1911 and the Bank of Mysore in 1913. The Corporation Bank has come a long way since the heady days of the early 20th century. Today, we can proudly state that it has fulfilled the vision of its founders if ‘not in full measure, very substantially’. It has not only survived a hundred turbulent years, but is today one of the more agile PSB players in the market. This has been possible in no small measure by the Bank’s ability to manage and utilize its talent and potential. And this brings us to the theme of my deliberation today - managing talent in banks.

In the run up to the hundred years, banks and banking have changed substantially. As we view matters in retrospect, we see two landmark events which constituted strategic inflexion points in the history of Indian Banking in the 20th century – one being the nationalization of banks in 1969-70 and the other, the financial sector reforms that commenced in the early 1990s. Nationalisation generated forces that took banking from an elite class to the masses. It led to the establishment of a very substantial infrastructure across the geographical expanse of the sub-continent and more importantly to the financial empowerment large sections of society which substantially changed the Indian socio-economic landscape. The second inflexion point in banking was the financial sector reforms initiative that was launched in the early 1990s. These reforms heralded a dramatic shift in the way banks functioned and operated in India. The changed environment and the internal compulsions arising from greater competition and the need to improve their market share / profitability gave rise to the quest for greater efficiency and the need to reposition themselves given the realities of the environment and their internal strengths and weaknesses.

A response to competition and the need to shape up has been the quest for efficiency. This quest, like the task of Sisyphus, has been never ending. Every target met, every cost reduction constitutes the new threshold limit to be crossed in the next quarter or half year. Every achievement gives rise to ever greater expectations of greater efficiency and cost reductions and greater output – and this is any CEO’s bane. Banking essentially consists of intermediating and managing risk and providing banking services. In the quest for efficiency what distinguishes one player from another is its human capital. As former RBI Governor, Dr. Bimal Jalan had pointed out “capital and technology are replicable but not human capital which needs to be viewed as a valuable resource for the achievement of competitive advantage.”

Where an institution is, in its time trajectory, fundamentally dependent not just on the sum total of its individual human capital, but on how effectively it draws out the best from its talent bank at any point of time, through effective placements, performance appraisal, rewards and recognition mechanism. How the trajectory changes is dependent on how it builds capacities, through training and recruitment. What ever be the organizational goals, the key issues facing Managements today is how to draw out the best from its staff? How to build capacities to reposition to achieve the organizational vision and strategic goals? And this boils down to one single factor that makes the difference – viz., talent. Today management itself has come to mean how to attract talented people, how to nurture them, how to develop them and to give them the necessary space

Indeed, when it comes to Human Resources, it is a great humbling factor - the best of knowledge workers who have ready answers for just about every technical issue are necessarily humbled when it comes to human resources. When we deal with humans, there are questions, issues and concerns – but no ready answers, no quick fixes, no instant remedies. It is thus with humility, but humility combined with a will to succeed that we can approach any Human Resource subject.

The purpose of Human Resource Management is essentially to enhance the efficiency of the organization, to allow and indeed nurture the personal growth and well-being of the staff and to create a facilitating environment and an organizational culture that removes impediments and irritants and fosters a feeling of pride and belonging – an internal brand building. The first and primary concern is thus organizational efficiency - traditionally HRM addresses this issue by putting in place HR systems that address issues of recruitment, placements, training and capacity building, performance appraisal and finally what is broadly grouped under the rubric - compensation, rewards and recognition. In laypersons terms the questions that we ask are – are we recruiting the right people, are we placing them as per their strengths, are we correctly assessing their training needs, are we assessing the efficacy of training, are we having a succession plan, do we have objective systems for performance appraisal and finally are we compensating, rewarding and recognizing the performance of our human capital?

Issues of personal growth and well-being are important as these not only contribute to a more healthy work environment but can be effectively harnessed to help align personal goals with organizational goals. It implies an approach where the organization attempts to build upon strengths of its human capital combined with appropriate placements where we can harness individual passions and energies into fulfilling organizational objectives. Finally, it is important to sensitize ourselves to the fact that HR functions and systems are here to facilitate and not to impede. An organizational culture that fosters trust, openness fairness and what is alluded to in institutional economics as a ‘security of expectations’, goes a long way in employee satisfaction and a congenial atmosphere at the workplace. This in turn helps attract and retain talent.

While these for long have been common knowledge, these have been difficult to implement in the absence of human resource management systems. Mapping competencies for every job requirement, mapping the competencies of the work force and matching these, anticipating workforce requirements, providing training tailored to individual goals and finally measuring performance are by no means simple. It is in the proper management of talent that opportunities for very substantial gains in productivity, profitability and personnel development lie – It is here that public sector banks can reap very substantial productivity gains. This takes HR and especially talent management from the shadows of the boardrooms on to the proscenium – on to the centre stage of concerns of the banks CEOs.

The preconditions for an effective talent management is clarity of where the organisation is, i.e., the starting point and where it wishes to reach in a given time horizon, i.e., the destination. Talents then constitute the prime resource needed to reach the destination laid out in the organisational goals and vision. To put any successful talent management programme into action, we need data and a robust MIS. It is intrinsically linked with strategy, with technology, with processes, with the quality initiatives and the traditional HR subsystems such as recruitment, placements, performance appraisal, and compensation. The questions that come to mind are: do we have a comprehensive idea of all our processes, what percentage of staff is deployed for facilitating functions, can better systems and reengineering of processes release and free valuable talent to explore their potential in functional areas? What are the competency gaps that need to be filled through capacity building and what gaps need to be filled with new recruits or lateral intake or contractual appointments? How do we gauge performance? Are we distinguishing between potential and performance? What forces come between potential and performance and is the institution addressing these? What is the reward mechanism which we have in place? What is the flexibility we can offer to move from a compliance culture to and outcome oriented culture – to foster a mindset driven by teleology rather than bureaucratic processes.

These issues have always been important, it’s just that the imperatives to address them squarely in substance were not so compelling. There have been broadly three catalytic forces that have brought about this changed perception of human resources: First, as the widespread use of the personal computer and the advent of the internet in the 1990s attained a critical mass, it marked a specific inflexion point which ushered in the Information Age. In this age, the intangible assets such as intellectual capital and talent have gradually supplanted hard assets of the Industrial Age such as capital, factories and inventories. The new reality is that people are increasingly the principal assets of an organization and salaries and compensation one of the principal components of the profit and loss account.

Secondly, a host of new industries, such as information technology, media and entertainment which changing technology and social needs have spawned, have given rise to a supply demand imbalance. Today, these new industries compete with the old for talent and banks need to look afresh not only at their recruitment strategies but also how to retain their talent – an issue hitherto far from the ken of the staid banker. Thirdly, there is the issue of ownership. Organizations own physical, financial and property assets – their ownership rights, however, do not extend to people. In the pre 1990s, employment bonding worked on what was termed the 'psychological contract' or the 'loyalty contract' – this involved the exchange of long term employment for employee loyalty. This in today's world has been seriously undermined, spurred not merely by a spurt in job opportunities, but also by the greater transparency in job opportunities brought about by the internet revolution. The old values of loyalty have eroded and indeed it is fashionable to have multiple companies in ones resume. This irreversible shift from Industrial age to information age, greater demand for high caliber managerial talent and greater promiscuity of people shifting from one job to another, has changed the playing field for the search and retention of talent – this is the new reality companies and banks in India have to contend with.

The term 'talent management', though known to entrepreneurs for centuries, entered the business lexicon in a rather dramatic and perhaps eponymous phrase, 'The War for Talent' penned in a McKinsey article. While the article spurred intense debate on both sides of the argument, it nonetheless brought the issue to the fore of the concerns of Management and is today of special relevance to Public Sector Bank in India. There is however a basic definitional issue. What do we understand by talent? There is no consensus – there was a time when talent referred to persons with expertise in a functional area – persons with knowledge, skills, competence or effectiveness to achieve predetermined targets. Today in the age of 'metrics', most of these are taken for granted. There is an increasing realisation that it is not functional skills alone or intellectual capacity that matters, but leadership qualities, the ability to straddle different functional areas, businesses, and cultures. In essence, talent in leaders, refers to the ability to effectively handle competing imperatives. While there would always be a place for the passionate niche specialist or the stellar uni-dimensional performer, the task of leaders would be to stitch together and harness their abilities. It is thus that in most corporate training establishments there is an increasing focus on softer skills such as ability to present, to carry a team, values, creativity, and the willingness to learn and to share.

Talent in itself has little meaning unless it is woven into the weft and warp of the corporate strategy. The need for talent arises directly out of the business strategy adopted. The linkage between talent and an organisation's business challenges and strategies, effective strategy execution requires sufficient numbers of the right people with the right skills and knowledge, in the right roles. The inevitable next issue involves the approaches to talent management. Two quite distinct approaches that come to mind are the (i) Talent based on stellar performers and (ii) Talent based on robust systems. The first approach leverages individual and group performance of an elite group of the brightest people; the second focuses on recruiting and retaining ordinary people and getting extraordinary performance from them. The focus is on systems – focusing on the collective vision which brings together the disparate pieces and sews them together in a common purpose. Whatever be the model followed, talent management entails that the organization knows what it is looking for, that is, what talent one needs for business, now and in the foreseeable future; knowing how best to source such talent; getting it and deploying it for optimum effect within the organisation.

Having said that, one must admit that the ground reality in our country is such that there is a host of issues to contend with before putting in place an effective talent management strategy. Forced with legacy issues, constraints, and the sheer complexity of the task, most organizations abandon the attempt to make rational choices. Most treat their people with diverse skill sets as undifferentiated resources and merely guess how best to assign employees to their job. This reality of course exists not just in India, where Public Sector Banks have their own constraints – ground rules and framework for employment - which make them less agile and responsive, but across the world.

One issue that bedevils public sector banks is that of compensation. How do they attract new talent and match the salaries and the compensation flexibility being paid by consultants, by IT firms, by multinationals, by private sector banks? Is the quest for talent lost ab initio? Here it may be stated that while the traditional psychological contract of long term employment for loyalty may have been undermined, quantitative solutions of the 1990s are not necessarily the answer. Money can be matched and topped by competitors – the pay packet may not be the only compensation that attracts talent. The monetary, social and psychological needs of talent today are in a melting pot. It is this ambiguity that can be a source of opportunity for Public Sector Banks. Today, the ‘loyalty contract’ is being replaced by a complex mix. There are a host of non monetary benefits that an organisation can offer ranging from job content, work exposure, project challenge, working at the cutting edge, working with a charismatic leader, flexible work environment, early leadership roles and positions of accountable influence, high-value, visible or high-profile assignments, cross-functional roles, training facilities, opportunities for personal growth, opportunities to build a resume in a particular work area, community bonding, location benefits or for that matter independence and space amongst others.

Understanding what it takes to foster a productive work environment, often alluded to as the "employee value proposition", essentially entails non-discriminatory, hostile-free workplaces with flexible and dynamic HR policies that enable an environment where employees feel included and valued, where commitment and motivation is maximized and where an organization needs to spend fewer resources on managing employee grievances. It is up to the creativity of the Public Sector Banks to turn their constraints into an opportunity to create such employee value propositions that appeal to the talent these banks wish to recruit. It also forces them to revamp their own talent requirements, their job content and reposition themselves as more agile players in the talent market.

In fact, effective recruiting is the beginning of effective retention. Matching between tasks and talents is a challenging problem and it is essential for allocational efficiency that people get allocated to right occupations. Refashioning the recruitment process may well therefore be the precursor of an effective talent management strategy. This may include identification of key positions and turnover risks associated with these positions, and competency/behavioural-based selection criteria that support the retention strategy and business drivers. Only a carefully designed and integrated set of initiatives that allow the employee to align himself with the organisational goals and objectives, map competencies for diverse work areas, build up capacities through a well-crafted and sustained strategy and draw out latent possibilities optimally would ensure emergence of leadership talent that is critical to any organisation’s prosperity and is therefore a central element of talent management. The aim is to align the current and future talents of individuals with the strategic challenges of our business. So while employees need to understand how to be more effective in their current roles, deliver specific business challenges, and pull together a personal development plan for shaping future careers, organizations too have to strategize how best to utilize the people’s talents and identify areas for internal development necessary for ensuring future success.

In a major push to banking reforms in our country, the Government of India has recently announced a slew of HR autonomy incentives for the better performing banks. Differential pay structures, lateral entry, contract employment and perhaps performance-linked pay as a sub-component of the compensation structure may turn out to be a potent talent management instrument in public sector banks too. While the debate on the merits of performance pay remains open and is contingent on an effective Performance Appraisal System being in place, the risks may be manageable if the performance management system is well designed and carefully implemented. Of course this is an area where bank managements need to design carefully calibrated institution-specific responses.

Talent management is thus a broad mandate. Today – more than ever before – banks must be prepared to be collaborative, supportive, and nurturing of their people while at the same time being more exacting. Standing as we do at the cusp of major role shifts and organizational transformations, every successful talent management strategy would have to be the right mix of a set of ‘push’ – motivation, recognition, career progression, capacity building and drawing out plans - and ‘pull’ – more tangible factors like higher pay, better benefits and heftier perks - factors. Misalignment of mutual expectations, person-job mismatch, perception of poor career advancement prospects and work-life imbalance can be huge setbacks which we can ill afford. In the roadmap that has been envisaged for the Indian banking sector, Indian banks have about five years to shape up to face the challenges of unfettered competition. If they get their mix of talent management, performance management and their compensation incentives right, they should be on the threshold of a brave new era in Indian banking. I trust that Corporation Bank with its time-tested track record would convert these challenges into opportunities and emerge as a talent management trend-setter. On this momentous occasion, I wish you all every success in all your future endeavours.