



## INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS AND MANAGEMENT

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## A FRAMEWORK FOR LEADERSHIP DEVELOPMENT IN PUBLIC SECTOR BANKS

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### ABSTRACT

*This paper provides an overview of the leadership development frameworks. It refers to leadership development as an organizational process for developing leaders based on the strategic needs and presents a synthesized framework/approach for leadership development in public sector banks.. Leadership development is a two way collective process of teaching and learning in meeting the challenges of change on a continuous basis and prepares the organization for future. A framework is a model representing the elements of the leadership development program. This paper presents a flexible framework to Leadership Development considering the changing needs of public sector banks and needs assessment at various levels of the banks.*

### KEYWORDS

Leadership; Leadership development; Leadership Development Framework.

### INTRODUCTION

Leadership and its study have roots in the very beginnings of human civilization. Egyptian rulers, Greek heroes and biblical patriarchs all have one thing in common –LEADERSHIP. (School of leadership, Regent University, 2005)

Nature of work, work environment, worker motivation, leaders, managers, leadership styles and other related variables have been studied at length for almost two centuries. But leadership focus has undergone radical changes over the years. In this connection, the moot question seems to be: What is leadership?

Leadership seems to be one of the most observed but least understood phenomenon in human relations. (Burns, 1978) Problems arise not only in understanding the operation of the theory but also in definition of leadership. There are almost as many definitions of leadership as those who have attempted to define the concept. It is a complex construct and open to subjective interpretation. (Northouse, 2004)

Leadership can be best understood as the ability to influence a group of people towards achievement of common goals.

Leadership is the process of influencing people by providing a purpose, a direction, and motivation while operating to accomplish the mission and improve the organization. (Stogdill, 1974)

“Most definitions of leadership reflect the assumption that it involves a social influence process whereby intentional influence is exerted by one person [or group] over other people [or groups] to structure the activities and relationships in a group or organization” (Yukl, 2002).

After an overview of various definitions of leadership, for the sake of simplicity we can understand that

Leadership is a process

Leadership involves influence

Leadership occurs in groups

Leadership includes attention to goals (Northouse, 2004)

### WHY IS LEADERSHIP DEVELOPMENT IMPORTANT?

In a fast changing global environment leadership holds the answer not only to the success of individuals and banks but also to various sectors, regions and nations. The need for effective leadership is voiced more strongly now than ever before.

A Google search on leadership results in 1290 million options in 0.17 seconds but currently the number of articles published on leadership every month is about 745. (google, 2011)Also there is an increasing investment in leadership and management development, globally. These facts highlight the importance of leadership in both business and non-business organizations (Borins, 2002).

Businesses accept the role of effective leadership in organizational success, so now greater attention has been focused on the roles of Leader and Leadership development. (Leadership south-west, 2004)

Let us turn our attention to the question: What is Leadership Development?

There is a growing amount of research devoted to the complex concept of Leadership development. (Cohen, 1999)

Early writings on Leadership Development refer to activities that enhance an individual's ability to lead and search for effective leaders with leadership traits. (Institute for educational leadership, 2008)

### LEADER DEVELOPMENT VS. LEADERSHIP DEVELOPMENT?

Leader development involves development of an individual's capacity to lead whereas Leadership development is development of a group's shared capacity to lead. It is the expansion of organization's capacity to enact the basic leadership tasks needed for collective work. (Day,David, 2001)

Leader development is an activity or event whereas Leadership development is a process.

In leader development the focus is on developing an individual's tasks and competencies whereas in leadership development the focus is on leadership as a social system.

The earlier approach to leadership development was oriented towards building capabilities in anticipation of unforeseen challenges. 20<sup>th</sup> century institutions used leadership theories to identify and inculcate skills necessary to lead. The emphasis was on individual's knowledge, skill, and ability associated with formal roles.

There is a shift in emphasis in designing developmental activities to enhance collective capacity of groups to carry out leadership tasks. Currently leadership development is moving towards shared capacity of the group or organization by involving followers and enhancing the quality of working relationships among employees at and of all levels.

Leadership development is the deliberate, continuous, sequential and progressive process, grounded in organization's values that grow people into competent and confident leaders capable of decisive actions.

Modern view is that Leadership Development is a responsibility to be discharged effectively by the organization that determines the efficiency of an organization so that there is no dearth of leadership for the future needs of the organization.

### **CAN LEADERSHIP BE LEARNED? OR CAN LEADERSHIP BE TAUGHT?**

Illustrious leaders, researchers, business schools, Consultants and sponsors of leadership development are unanimous that by carrying out efforts to develop leaders and by continuously improving the various Leadership development practices we can teach leadership, the only difference being the content and context of practices

They also agree that there is a positive impact of leadership or leadership development on the performance and productivity of an organization.

The trait approach was one of the earliest approaches for studying leadership. This approach emphasizes leaders' attributes such as personality, motives, and skills.

Underlying this approach was the assumption that some people are natural leaders, endowed with certain traits not possessed by other people ( Yukl, 2006). Others viewed leadership as linked naturally and necessarily to cognitive ability or general educational accomplishment (Connaughton, Lawrence & Ruben 2003). Thus leaders were born and as such, leadership could not be developed.

However there is an immense body of scholars who believe that leadership can be taught and developed. According to Brown (2003), research suggests that leadership is a skill that can be developed. This is done by participating in educational opportunities and develops through small and steady changes in behavior. Nau (2003) states that there is consistent evidence that leadership can be taught. He believes that developing as a leader is a constant learning process. This is done through training and counseling by developing specific action plans based on the theory.

Allio (2005) adds that leadership consists of behaviors, which are tangible, observable, and to some extent measurable things, which one does and/or which one can learn to do, given reasonable motivation and average intelligence. He believes that leadership is not genetically endowed, because if it was would imply that it would not be learnable. He also asserts that most leadership training initiatives promote leadership literacy but not leadership competence. Paradoxically, however, while leadership cannot be taught, leadership can be learned. Men and women become leaders by practice, by performing deliberate acts of leadership. (Allio, 2005)

Boaden (2006) observes that training efforts in many organizations appears based on the belief that there are appropriate ways to lead others, and that these ways can be taught to managers. There are concepts and practices that can be learned and taught that will enhance the leadership effectiveness of people. Work experiences, bosses, special projects, role models, education all play a role in leadership development. But the methods of teaching need to focus on creating meaningful experiences from which the student can learn.

Allio (2005) believes that leadership is simply not a craft that schools can teach; men and women become leaders only after tempering in the harsh crucible of organizational experience.

Connaughton, Lawrence and Ruben (2003) state further that leadership competencies do not develop automatically as a consequence of having particular cognitive abilities or discipline expertise. As with musical, athletic, and other performance competencies, the requisite knowledge and skills for leadership can be taught and learned.

This paper takes the stance that leaders are a combination of both natural born abilities and development activities, that people can learn and grow, and that organizations can facilitate leadership effectiveness.

Also as the current leadership needs of business are more than those available with a natural in born qualities; the only alternative being to grow our own leaders according to our needs.

### **NEED FOR LEADERSHIP DEVELOPMENT IN PUBLIC SECTOR BANKS**

The key to the success of any organization lies in efficiently managing its human resources. The principle applies more aptly to service institutions like banks. The issue is all the more relevant to the public sector banks who are striving hard to keep pace with the technological changes and meet the challenges of globalization.

In order to meet the global standards and to remain competitive, banks will have to recruit specialists in various fields such as Treasury Management, Credit, Risk Management, IT related services, HRM, etc. or develop these competencies in their people and institutionalize a mechanism for this activity (Indian Banks Association, 2003)

To institutionalize talent management, the first priority for the banking industry would be to spot, recognize and nurture the talent from within. Secondly, the industry has to attract the best talent from the market to maintain the required competitive edge vis-a-vis global players. However, the issue of critical importance is how talent is integrated and sustained in the banks. Therefore, a proper system of talent management has to be put in place by all the banks.

As the entire Indian banking industry is witnessing a paradigm shift in systems, processes, strategies, it would warrant creation of new competencies and capabilities on an on-going basis for which an environment of continuous learning would have to be created so as to enhance knowledge and skills. (Indian banks association, 2010 July-September)

### **WHAT IS THE URGENCY?**

With nearly a quarter of the workforce in public sector banks set to retire in the next two-three years, the government has asked these institutions to come up with a strategy to leverage technology and business process reengineering to make up for bridging the gap created by shortage of staff.

Recently government sought a detailed assessment of manpower planning to fill up shortfalls. Also banks have been asked to build a pool of talent that can take up leadership positions.

In a communication to PSBs including State Bank of India, Punjab National Bank, Bank of Baroda, Bank of India and Canara bank; finance ministry said that Banks should endeavour to train their officers from the level of AGMs to prepare them for assuming leadership roles. (Business line, 2010)

### **NEED FOR QUALITY LEADERS**

The government as a majority shareholder in PSBs seems to be more concerned about the quality of people who will step in to shoes of the present breed of experienced bankers.

Suggestions were also sought on institutionalizing leadership training in banking system to fill the gaps in the leadership pipeline.

PSBs are expected to come under pressure on the manpower front on two counts.

1. On the one hand experienced employees recruited in the mid-seventies will retire.
2. On the other, many will seek voluntary retirement in the wake of the recent industry-wide wage settlement, whereby provident fund optees have been allowed to plump for pension as a terminal benefit.

### DWINDLING MANPOWER

The gravity of manpower situation in the PSBs can be gauged from the fact that the number of employees ( including officers, clerks, and award staff who retired in 2008, 2009 was around 21500 and 25000 respectively. In the current year 2010 about 28000 employees have superannuated.

Though the banks have recruited by thousands in the last two years, these new recruits can not be expected to fill the shoes of the experienced bankers from the word go. (Bancon, 2010)

PSBs are facing high attrition as youngsters are hopping from one bank to another for higher pay and position. ( All-India bank officers association,2010)

Manpower gap has risen in PSBs as recruitments happened only in dribs and drabs between the mid-1990's and 2005. In this regard banks have been asked to come up with a plan on how the manpower shortfall in the available positions can be filled-up.

To reduce the burden on branches and overcome the shortage of staff, the strategy on technology could encompass efforts to popularize alternative delivery channels such as ATMs, internet and mobile banking while that on Business Process Re-engineering could deal with redesigning processes associated with products and services.

Given the employees' present competence and skill-sets in the face of ever increasing challenges of the banking industry, Banks are required to focus on the training and Leadership Development requirements of their staff.

Banks will be required to prepare an action plan on the number of employees trained in risk, forex and treasury management, branch operations, credit/project appraisal during the last two years and the number of employees who are further required to be trained. Banks are required to groom the talent, nurture and develop the talent and retain the talent not only to survive in the highly competitive scenario but also grow in view of the emerging opportunities driven by the high growth momentum in various sectors of the Indian economy.

Today's banking has become knowledge-based and technology-driven. If there is one single lesson to be learnt from the entire process of transformation the world over, it is that 'people' are the real strength of the organization and that they manage the transformation. Being a service as well as a financial organization, the success and survival of the bank depends upon its human capital. (Bancon, 2010)

In a fast changing world, the human capital of an organization erodes rapidly due to obsolescence and superannuation, unless it is recapitalized with new skills ie, re-skilling and replenishment. But PSBs in India are now at crossroads; facing serious challenges on the human capital front due to lack of dynamic human resource management. These efforts by PSBs would help them restrict the onslaught of new generation private and foreign banks and to retain their customer base and grow. But, unfortunately, over the years, PSBs had very little vision or long term strategy in the area of HR requirement for tomorrow's banking. (Bancon, 2010)

### A RANGE OF GLOBAL LEADERSHIP COMPETENCY FRAMEWORKS ACROSS ORGANIZATIONS

The most popular and best practices in leadership development across various organizations and sectors in companies like General Electric, Motorola, PepsiCo, Federal Express, Johnson & Johnson, Astra Zeneca, General Motors, BAE systems, Philips, Lufthansa, Shell and Vodafone were studied for identifying common competencies. In addition leadership development practices from a cross-section of institutions including public sector and government sector like Senior Civil Service of UK, Department for education and skills (UK), Northern Ireland civil service, Scottish executive framework, Ministry of defense(UK), Employers organization for local government(UK), National Health service leadership qualities framework, National college for school leadership, Senior executive service (US) and Leadership development model of National Aeronautics and space administration(NASA-USA) provides an opportunity to have a comprehensive understanding of various approaches to leadership development. Many other generic frameworks like Council for excellence in management and leadership, Management and training organization, IIP leadership and management model, EFQM business excellence model, Institute of chartered management Skills, IMF management competencies, Hamlin's generic model, Zenger Miller grass-roots leadership model were also reviewed for identifying what is desired of leaders and the manner in which the required competencies are developed and to know how these are integrated in to leadership development practices. (Centre for leadership studies, 2003)

Many of the frameworks suffer from an overemphasis on the role of individual leader and suffer from lack of research. No information was available on how the frameworks were developed. Many of the frameworks are loosely based on notions of the company culture, guidance of the CEO and what seems to be acceptable. (Bolden, 2003)

### WHAT COMPETENCIES DO PUBLIC SECTOR BANKS FOCUS ON?

The purpose of this pioneering study was to examine the leadership development frameworks available in public sector banks, if any, what competencies they need to focus and suggest a generic framework for banks in general and public sector banks in particular in India.

A comprehensive structured interview was conducted on a random sample of managers including HR managers and Training managers of public sector banks. The size of the sample was 60. The overall response rate was 57% after a series of visits and a follow-up. On the basis of information obtained through interviews a set of generic competencies were identified and a framework has been developed. However actual selection of competencies needs to be customized by individual banks to suit their contextual leadership development needs.

TABLE-1: CADRE-WISE DESIGNATIONS OF OFFICERS OF PUBLIC SECTOR BANKS IN INDIA

DESIGNATION OF OFFICERS IN BANKS IN INDIA	GRADE	SCALE	FUNCTIONAL LEVEL
Officer	Junior Management Grade I	1	Branch/Department level
Manager	Middle Management Grade II	2	Branch/Department level
Senior Manager	Senior Management Grade III	3	Branch/Department level
Chief Manager	Senior Management Grade IV	4	Branch/Department level
Assistant General Manager	Senior Management Grade V	5	Large Branch /Regional office level
Deputy General Manager	Senior Management Grade VI	6	Regional/Zonal/ Head office / Corporate level
General Manager	Senior Management Grade VII	7	Zonal office /Head office/ Corporate level
Executive Director	Senior Management Grade VIII	8	Corporate level
Chairman and Managing Director	Senior Management Grade VIII	8	Corporate level



TABLE-2: PROPOSED COMPETENCIES FRAMEWORK FOR LEADERSHIP DEVELOPMENT IN PUBLIC SECTOR BANKS-2011

INDIVIDUAL	PERSONALITY	LEADERSHIP	BUSINESS	KNOWLEDGE	PROFESSIONAL
Courage	Analytical skills	Developing staff	Branch banking	Awareness and use of information technology	Inspection and audit
Commitment	Communication	Leading and managing people	Business development	Industry awareness	Administrative skills
Credibility	Decision making	Developing organization	Customer focus	Information processing skills	Corporate banking
Focus on results	Learning	People skills	NPA management	Product or process innovation	Credit cards
Initiative	Problem solving		Organization culture		Credit management
Integrity	Negotiation		Regulatory compliance		Export finance
Self confidence	Team working		Relationship management		HRM
Self awareness			Stakeholder management		Housing finance
			Strategic thinking		insurance
					Infrastructure finance
					Information technology
					International banking
					Investment banking
					Marketing
					Micro finance
					Mutual funds
					Non-banking services
					Project finance
					Recovery and asset management
					Retail banking
					Risk management
					SME finance
					Social banking
					Trade finance
					Treasury and foreign Exchange management
					Wealth management
**1,2,3,4,5,6,7,8	**1,2,3,4,5,6,7,8	**2,3,4,5,6,7,8	**2,3,4,5,6,7	**3,4,5,6,7,8	**Any two or three domains as per aptitude and choice for all levels from 1 to 8

\*Competencies identified are marked level wise 1 to 8 i.e., from Junior Management Grade /Scale I officer ( Officer at entry level) to Chairman and Managing Director level ( Highest level for any Bank)

\*\* Numbers indicate the scale or grade of managers for whom the specified competencies are required for their effective development.

**ANALYSIS OF THE FRAMEWORK**

The competency framework has been developed with inputs obtained during the structured interviews with bankers from public sector banks. The competencies identified have been classified under six levels each of which are explained below.

### COMPETENCIES AT INDIVIDUAL LEVEL

In the current competitive business scenario, only competent individuals can handle the banking operations effectively and efficiently, who requires certain basic qualities on the part of an individual. Banks need to focus on preparing leaders for tomorrow. Tomorrow's bankers need to have competencies like courage, commitment, credibility, focus on results, initiative or drive, integrity, self confidence and self awareness. These competencies are required not only for leaders at higher levels but also for managers at all levels to achieve business results and be self disciplined.

### COMPETENCIES REQUIRED AT PERSONALITY LEVEL

Bankers need to enhance personal effectiveness which requires focus on personal capabilities and characteristics. Another important aspect is cognitive abilities as personal effectiveness and growth depends on continuous learning. Personal capabilities include analytical skills, decision making skills, problem solving skills, team working skills, and communication skills including negotiation skills. These are required for effectively dealing with customers and securing profitable business for the bank and also render quality customer service and thereby retain customers.

### LEADERSHIP COMPETENCIES

Bankers need to acquire leadership skills because banking is a service industry and the competitive edge of a bank is its people. All organizational development activities focus on people. Unless people in a bank are developed banks can not progress and grow. Hence bankers should learn people management skills so that they can lead and manage staff and handle discerning and demanding customers.

### BANKING COMPETENCIES

This is the hard core area of banking operations which every banker needs to be familiar with. A leader should be good at Branch banking as the branch is the basic unit of banking operations. He should be able to develop the business with a strategic bent of mind without sacrificing the customer focus because it is widely held that customer is the king. This requires bankers to hone up their relationship management skills. At the same time he should keep an eye on the non performing assets to have a control on the provisioning requirements as provisions eat away the hard earned profits. Managers at all levels should be well versed with the changing regulatory requirements for better compliance as non-compliance will attract penal provisions and tarnish the image and reputation of the bank. In India ownership of most of the banks are widely held and leadership at levels should understand their responsibilities towards all the stakeholders and practice good corporate governance.

### KNOWLEDGE MANAGEMENT COMPETENCIES

We are living in knowledge economy. Technology explosion and proliferation of internet and information technology during the last two decades has brought a significant transformation in the banking industry at all levels. Unless the bankers are aware of the changes that are happening in the industry and are able to exploit the information technology they are unable to process the large quantity of information available to them they will be out of place in the market sooner or later. These skills enable them to design innovative products and design or re-design their business processes to render cost effective services to their demanding customers.

### PROFESSIONAL COMPETENCIES

Banking has grown into such a large sophisticated domain and still expanding its frontiers on a continuous basis. Many innovative or technology oriented products like wealth management and financial planning are coming in to the fold of banking, in the name of universal banking. Now time has come for banks to build capabilities and expertise of individuals and teams not only to cater to the current needs but also to take care of the future needs. Banks should build talent pools so that they can draw talent from the pool whenever they need.

This competency framework identified 26 sub-domains of banking and proposes that every manager in his career should be prepared to handle independently at least 3 or 4 areas as mentioned in the last column of the table-2. This will enable the bank to build a large reservoir of talent so that the bank will always be ready to exploit the emerging opportunities in any of these areas. Hence there will not be any dearth of expertise in the bank and the operations will be smooth even if key individuals leave the bank. However the individuals should be given freedom to choose their specific areas of interest depending on their aptitude so that the banks can prepare Individual Development plans (IDPs). Here HR managers and executives should play a major role in motivating people to align their individual development needs or goals with organizational requirements.

### RECOMMENDATIONS

The design of leadership development programs using current methods produces leaders with current skill sets which may not be able to achieve the ambitious objectives of the Public sector banks and their future requirements. Further research needs to be done by individual banks to identify their future competency requirements and for designing a comprehensive program of leadership development so that each bank can manage its own leadership pipeline to cater to its future talent needs.

### CONCLUSIONS

This is a pioneer study to explore the competencies under leadership development frameworks being used in public sector banks India. Most public sector banks are not using the best practices that are successful elsewhere in other sectors/ industries/ countries. Public sector banks need to invest heavily in the development of their future leaders so that they could achieve the full potential of their human resources. (Bancon, 2010).

The suggested framework if suitably adopted by public sector banks and implemented, I believe would prepare Indian public sector banks to address the leadership development challenges and help produce effective leaders that the banking industry needs in general and public sector banks' in particular; to compete for a greater global role in the 21<sup>st</sup> century.

Leadership development is only a tool and a means to an end but not an end to itself.

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