

Case Study

CHANGING FACE OF COMPENSATION IN PSUs AN ATTEMPT TO COMPETE WITH PRIVATE SECTOR

Neelam Saraswat*
Gaurav Bhargava**

“If public sector banks are required to compete with private banks on a level playing field, there is a good case for compensating them too on a competitive base”.

– Reserve Bank of India Governor D. Subbarao (www.in.news.yahoo.com)

THIS case is not only relevant in the banking sector but also matter of focus in other industries. To compete with private sector, public sector units (PSUs) are making changes in their work procedures. They are changing their organization structure in order to become more prompt in response to the changing environment which includes competitors also. Employees become a very important source of competitive advantage for an organization. To attract and to retain employees, an organization needs to have sound compensation strategy supported by other HR functions. Compensation in PSU has many reasons for revision. “The executive compensation in the public sector, as is well known, is lower than that in the private sector. Notwithstanding the historical reasons for this, there is perhaps a good reason to revisit this. There is also the risk that if the public sector bank (PSB) compensation is not improved, the public sector may lose talent to the private sector”, Subbarao said (www.in.news.yahoo.com). Talent acquisition and talent retention is the basic problem faced by most of the PSUs. PSBs seem to be facing a crisis with almost half the top management cadre retiring in the next couple of years, with no identifiable talent to replace them (www.moneylife.in). Situation becomes more appalling for PSUs when people are handsomely paid in private sector organizations. So this issue has started to gain attention of policy makers in India. Payment according to the industry norms is becoming part of compensation determinates for PSUs. Apart from pay hike, PSUs are adopting other effective components of compensation in private sector units. Variable pay or pay for performance which is more popular in private sector is now gaining its popularity and acceptance in public sector units also.

Committee which was Chaired by A.K. Khandelwal, former CMD, Bank of Baroda, and constituted of five other members – Dr. T.V. Rao, Professor, IIM-Ahmedabad, Dr. Deepak Pathak, Professor, IIT Mumbai, M.V. Nair, ex-chairman Indian Banks’ Association and H.N. Sinor, former executive IBA (www.expressindia.com) has proposed that PSB should be allowed to adopt the CTC (cost to the company) concept, something that is more attuned with the private sector than the public sector. The committee has also suggested that variable pay should be a major component of wages (www.news.in.msn.com). One of the major recommendations given by the committee includes introduction of employee stock options plans (ESOPs) for top performers of the banks to retain talent in public sector banks. The committee has proposed that banks must acknowledge 25 per cent of the top performers through ESOPs and performance linked incentives. ESOPs may help PSUs to pull up the productivity level of

* Assistant Professor, Delhi School of Professional Studies and Research (Approved by AICTE), Delhi, India.

** Assistant Professor, Lovely Professional University, Punjab, India.

employees and to curb attrition rate. Few other recommendations given by the committee include (www.expressindia.com) (www.moneylife.in):

- Introduction of separate positions for chairman and the managing director
- Outsourcing of non-core operations and incentivize mobility of clerical staff to the rural areas in PSBs.
- Wage settlement at the individual bank level, with each bank deciding its own wage structure depending on its profitability and capacity to pay instead of industry-wide wage settlement.
- Changes to the archaic recruitment criteria of PSBs. For clerical staff minimum qualification should be graduation, instead of the current SSC requirement. Also, for the officer cadre, candidate should hold a banking diploma, apart from graduation.
- Formation of a board committee on HR in each bank. Banks having business worth Rs 3 lakh crore and a staff of 30,000 will be required to appoint an executive director-HR on their board.
- Succession planning by bank's board for each key leadership position by identifying three potential successors. The Committee has also suggested for the setting up of a national level Banker's Leadership Development Institute which will develop leaders for banking industry.
- Introduction of performance management systems.

Incentive structures have begun to gain ground in PSUs other than banks also. "An incentive system is being worked upon as recommended by the sixth pay commission. It could be implemented by next year". Prajapati Trivedi, secretary, performance management, said at the annual economic editors' conference (www.economictimes.indiatimes.com). This incentive scheme would be based upon performance of the employee and would also depend upon cost savings on account of reduction in the use of office stationary and savings in the electricity consumption. Government has started to prepare the system for performance monitoring and evaluation for the same.

Government officials are very optimistic about the changes in compensation structure. This might help PSUs to attract best talent and to retain the same. This change in PSUs can help organizations to outperform private organizations. It can even solve the problem of low motivation of government employees which has always been the major issue in PSUs. This is the expected outcome but reality may even be opposite. Bureaucratic structure of Government organization may prove to become blockage in this path. Introduction of variable pay will increase the financial burden on already loss making PSUs. Employees at PSUs may oppose the incentive system.

Questions

1. Will the new pay structure help PSUs to compete with their counterparts in talent acquisition? Critically evaluate.
2. What kind of problem may be faced by PSUs in introduction of incentive schemes and pay for performance? How should these issues be addressed? Explain.

References

- <http://in.news.yahoo.com/48/20100908/1238/tbs-rbi-pushes-psu-bankers-case-for-fatt.html>, Retrieved on 20/11/2010.
- <http://www.moneylife.in/article/8/6797.html>, Retrieved on 23/11/2010.
- <http://www.expressindia.com/latest-news/PSU-banks-may-link-pay-with-performance/643167/>, Retrieved on 23/11/2010.
- <http://news.in.msn.com/business/article.aspx?cp-documentid=4123753>, Retrieved on 25/11/2010.
- <http://economictimes.indiatimes.com/news/news-by-industry/jobs/Incentive-system-for-govt-staffers-next-year-Secy/articleshow/6818946.cms>, Retrieved on 28/11/2010.