"Employee Downsizing in Globalized Business Environment: A Study of Public Sector Banks with Special Reference to State Bank of India"

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Abstract:

It is generally recognized that most of the organizations are re-engineering the organization's functioning, re-structuring job assignment, redesigning the business due to the impact of globalization, joint-ventures / foreign collaborations, mergers and acquisitions, outsourcing, automation of essential services and intense competition. These changes in business environment ultimately affect the manpower requirement of the organization. The quality consciousness and cost effectiveness are the factors those compel the management to look towards retaining the cream and laying off the unproductive elements from the work place to increase the organizational performance and getting competitive advantage.

In the context of Human Resource Management, the word 'downsizing' means keeping down the human resources strength to the minimum, and the word 'rightsizing' indicates, on very rare occasions, even 'upsizing' or enhancing the HR strength, if warranted by expansion in the business of the corporate. Both steps, however, should measure up to the optimum level required for the successful function of the corporate.

This paper is based on non-empirical and descriptive research, which mainly uses the secondary data from various sources. In this research paper, we have discussed in detail about 'employee downsizing' with referring case of *Public Sector Banks* with special reference to *State Bank Of India* which has implemented downsizing strategy due to different reasons. This paper is, devoted to deal with various aspects of 'employee downsizing': Various causes of 'employee downsizing', relationship between 'employee downsizing' and the organizational performance. This paper makes an attempt to highlight the impact of 'employee downsizing' on organizational performance and reducing cost.

Key words: *Employee Downsizing, Public Sector Banks, Organizational Performance, VRS, Cost.*

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Introduction:

In the recent past, downsizing has become an extremely sought after strategy among businesses to stay fit in the competitive markets. It is expected to cut costs and make their products more 'price-competitive', particularly in the international markets. It has become a common practice, particularly among the multinationals or companies aspiring to be multinationals, for varied reasons : The scare of increased competition from global players and the resultant need for price-competitiveness ; changing technologies that have profoundly impacted the role of labor in the overall business processes ; spectacular innovations in the 'enabling-technologies' that have completely revolutionized the way businesses are carried out; the craze for availing 'comparative advantage' even in labor costs, etc.

As a strategy, downsizing is meant to reduce the scale and scope of a business, and thereby improve its overall financial performance. Though the word downsizing is in use in the corporate world since the 1960s, there is still no precise theoretical definition, of the term, for many people have defined it in many ways. Cameron (1994), a noted authority on corporate downsizing, defined it by embracing a holistic approach, saying that downsizing is "a set of activities undertaken on the part of management of an organization and designed to improve organizational efficiency, productivity and/or competitiveness." On the other hand, Cascio (1993) opines that downsizing does not necessarily mean increasing organizational performance *per se,* but the reduction of the workforce by "the planned elimination of positions or jobs." It is essentially an endeavor of the management to change its organizational design, its business processes, values and attitudes, mission and vision.

Although reduction of the work force is only one of several possible ways to reduce costs and improve profitability, it has become the most common and the first outcome of any downsizing exercises of corporates. Such reducing of the employees' number is believed to reduce costs; reduce layers of management, and thereby speed up the decision-making process, which in turn can take the company much closer to the customer; sharpen a company's focus on core competencies and thereby lead to outsourcing of less critical activities at much lesser cost; increase per-employee productivity; and ultimately win the shareholder's confidence towards the management by improving market capitalization. The elimination of jobs is an organization that undertakes downsizing is of two kinds: One, cut in jobs due to decreased demand for a company's products or services, and two, driven by technological changes that enable a company to do the same work with less number of employees but at increased efficiency levels. The second one is resorted to even when a business is enjoying not only a healthy demand for its products but also forecasts a healthy growth in sales. It is this second type of downsizing that has grown since the 1980s. Downsizing, whether driven by a fall in sales or technological changes, has today become a strategic input of the management.

Downsizing is slowly entering the developing countries too as could be gauged from the fact that the leaders of businesses in developing countries are actively advocating governments to introduce suitable laws that facilitate the easy hire-and-fire of employees. With the advent of globalization, the craze for such business-friendly laws has only increased.

We have used secondary data in this research paper, collected from books, magazines and websites. After analyzing the whole data we have made interpretations and drawn conclusions for easy and better understanding of the reader.

Objective of the Study:

The main aim of the study *is to understand the phenomenon of downsizing in State Bank of India*. To help in achieving this objective, few specific objectives are identified:

- To identify the reasons of opting downsizing strategy by the State Bank of India.
- To know the exercising procedure for employee downsizing strategy in State Bank of India.
- To know the relation between performance of State Bank of India and downsizing.
- To know the benefits and pitfalls of employee downsizing in case of State Bank of India.

Significance of the Study:

This study facilitates both the academicians as well as management of the organizations. This study provides guidance to academicians for providing academic training. This study enables the management of the organizations to make effective planning for downsizing, directing, motivating and controlling to achieve desired results of downsizing.

Limitations:

There are a few limitations of the study. They are:

1. The main limitation of this paper is that, it is based on secondary data only.
2. Secondary data used, does not carry necessary quantitative information.
3. Secondary data used in this paper is collected from books, magazines and websites, not from the concerned organizations which have implemented schemes to downsize their workforce. Hence results drawn on the basis of available data can be biased.

Literature Review:

Reasons for Downsizing: Littler & Innes, (2003) places that since the early to mid-1980s; organizational downsizing has turned into an inescapable element of a huge number of partnerships and government institutions all through the industrialized world. Citing from different authors, Gandolfi (2005) contends that the prime motivation for downsizing exercises is the lessening of costs (Cascio, 2003). An improvement of an organizations levels of proficiency, adequacy, profitability (Gandolfi, 2005), and aggressiveness (Cameron, 1994) and in this manner an organizations general performance (Branine, Pollard, and Analoui, 2011). Mutonga, (2011) is of the view that reasons that may propel an organization to depend on downsizing are mergers and acquisitions, change in administration, financial and economic emergencies, excessive workforce and outsourcing.

Downsizing Strategies: Cascio (2003) proposes that, organizations mainly use any or more of the four strategies when they chooses to downsize which are: attrition, voluntary termination (including employee buy-outs and early-retirement offers), compulsory termination, and across-the-board cuts.

Downsizing and Organizational Performance: Among the workplace behaviours affected by downsizing, turnover intentions and absenteeism are most frequently studied. Trevor and Nyberg (2008) found a positive correlation between voluntary turnover and layoffs through downsizing on the sample of “employee friendly companies”, which was mitigated by higher organizational commitment. Travaglione and Cross (2006) found an increase in survivor absenteeism followed by a downsizing, but no effect of downsizing on turnover intentions.

With downsizing negatively affecting a wide range of individual outcomes, one might expect the same effect on firm-wide outcomes. However, firm-wide effects of downsizing are much less uniform. For instance, among the more recent studies measuring the effect of downsizing on firm financial performance (sales, labor and total factor productivity, return on assets) positive effects are reported in Espahbodi et al. (2000), Wayhan and Werner (2000) and Baumol et al. (2003) on the samples of large firms in U.S. that publicly announced workforce reductions; in Yu and Park (2006) and Siegel and Simmons (2010) on a broader samples of South Korean and Swedish firms; in Atanassov and Kim (2009) on a still broader sample of about 25,000 firms in 41 countries; and in Friebel et al. (2014) on the performance data from U.S. railroad operators. At the same time, downsizing was found to negatively affect organizational performance in De Meuse et al. (1994, 2004) who measured profit margins and return on assets in the Fortune 100 firms that did and did not lay off workers; in Guthrie and Datta (2008) who compared return on assets in the downsized vs. Non-downsized U.S. firms; and in Goesaert et al. (forthcoming) who looked at the effect of downsizing on productivity in 500 largest German firms.

Research Methodology:

This study is non-empirical and descriptive in nature based on data collected through secondary sources i. e. systematic literature review including books, magazines, reports and various websites etc. We have considered the downsizing strategy of Public Sector Banks with special reference to *State Bank of India*, which have implemented VRS to downsize its excess workforce due to different reasons. The chart, diagram and analysis are self-developed on the basis of expert's opinion from banking field. Data related to State Bank of India is secondary and taken from various articles of HR experts published in magazines and information available on various websites.

Employee Downsizing in Public Sector Banks:

In 2000, FICCI has reported that the Indian Banking Industry was overstaffed by 35%. This would make it difficult for public sector banks to compete with nimble and more efficient private sectors banks. As banking reform gathered speed and the prospect of government hand-outs diminished, it become clear that banks could no longer offered to be overstaffed.

The finance ministry's calculations revealed that on the basis of business per employee (BPE) of Rs. 100 lakh, there were 59,338 excess employees in 12 nationalized banks. If the BPE were raised to Rs. 125 lakh, the number shot up to 1, 77,405. On a conservative estimate, it could be said that the public sector banking system was overstaffed by roughly 1, 00,000 people.

Hiring and firing in the public sector banking industry is a highly unionized business, subject to protracted negotiation with the Indian Banks Association (IBA). After years of deliberation, in November 1999, the government sanctioned the release of the VRS to the IBA. Between November 15, 2000 and March 31, 2001, all public sector banks, except Corporation Bank, introduced VRS. According to a study on VRS published in an IBA bulletin, out of the total 8, 63,117 employees in 26 public banks, around 1, 00810 (11.7 percent) employees took the offer before March 2001.

In terms of statistics, the results were dramatic. In 2000-01, the staff cost of all the 27 public sector banks (including Corporation Bank, which did not opt for VRS), was Rs. 21,050 core. By 2001-02, staff costs had dropped to Rs. 18,959 crore.

VRS could have balanced the skill profile vis-a-vis the employee mix (officer: clerical: subordinate), which was earlier 27.6 per cent: 50.20 percent: 22.2 percent in public sector banks. Post-VRS, according to the IBA bulletin, the ratio changed to 25.4: 51.0: 23.6, which means that along with clerical staff, the proportion of officers has gone down by 2.2 per cent.

While the banks managed to achieve two major VRS objectives - removing surplus (including non-performers) and reducing employee costs - a second objective was still to be met. VRS was supposed to level the age profile. However, the results were not different from before with 16 percent below 35 years of age, a sizeable 45 percent between 35 and 44 years and 39 percent between 45 and 60 years. Roughly 75 percent of the officer who opted for VRS was in the 40 to 55 age bracket.

Employee Downsizing in State Bank of India:

SBI had taken necessary steps to reduce its wage bill. The total number of employees at SBI who were given VRS stood at 20,784 of which there were 6,694 officers, 11,271 clerical staff and 2,819 subordinates. The cost of VRS to the bank was Rs.2, 000 crore-plus.

VRS resulted in some minor regional imbalances, but these were tackled by SBI by rotating the administrative staff to various branches wherever there was a need to do so, SBI's manpower problems were shared by all public sector banks.

SBI choose not to abide by government guidelines and offered VRS only to employees above the age of 55. According to government guidelines, any employee who was above 40 and had completed 15 years of service was eligible for VRS. But SBI marked its own cut-off age: it offered VRS to only those employees who were over 55. This created a furore among employees below 55 years who also wanted to opt for VRS.

Findings and Analysis:

Data collected through website and journals are analyzed below:

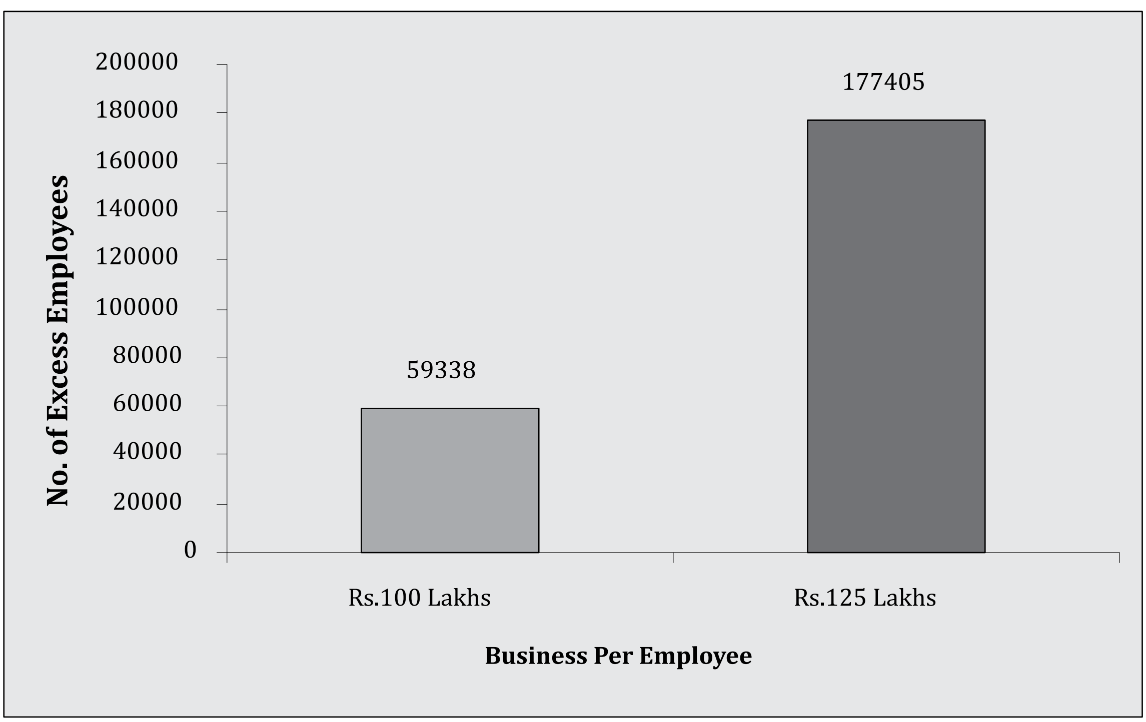


Exhibit-1 : Representation of excess employees in 12 Nationalized banks as per finance ministry calculations before implementing Voluntary Retirement Scheme (VRS) in the banks.

Interpretation:

As per Exhibit-1 following interpretation can be made -

- On the basis of Business Per Employee (BPE) of Rs.100 lakh, there were 59,338 excess employees in 12 nationalized banks.
- On the basis of Business Per Employee (BPE) of Rs. 125 lakh, there were 1, 77,405 excess employees in 12 nationalized banks.

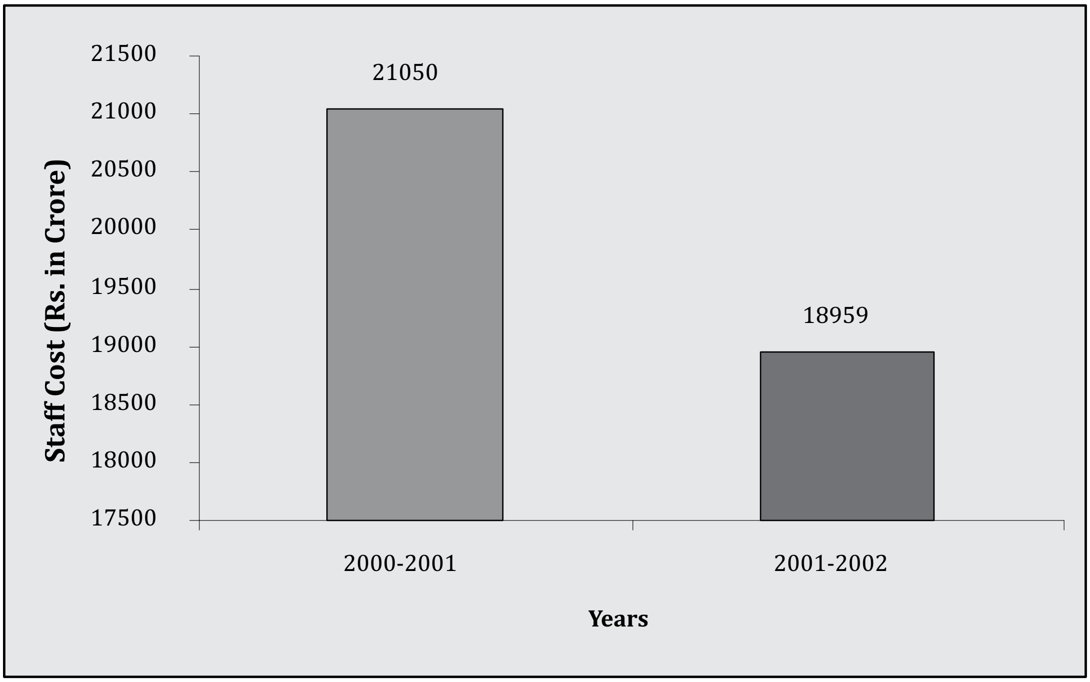
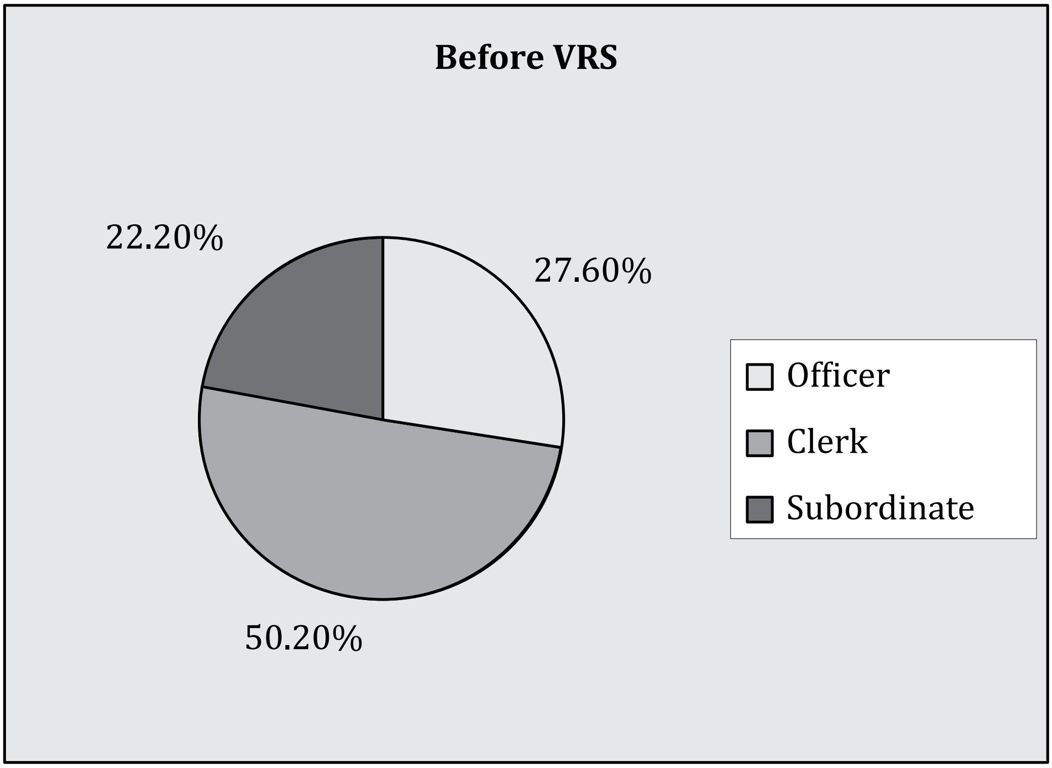


Exhibit-2 : Representation of the staff cost of all the 27 Public sector banks (Including corporation bank which did not opt VRS during 2000- 2001).

Interpretation:
As per Exhibit-2 following interpretation can be made -

- In 2000-01, the staff cost of all the 27 public sector banks (including Corporation Bank, which did not opt for VRS), was Rs.21, 050 crore.
- In 2001-02, the staff cost of all the 27 public sector banks (including Corporation Bank, which did not opt for VRS), was Rs.18, 959 crore.


Before VRS
22.20%
27.60%
50.20%
Officer
Clerk
Subordinate

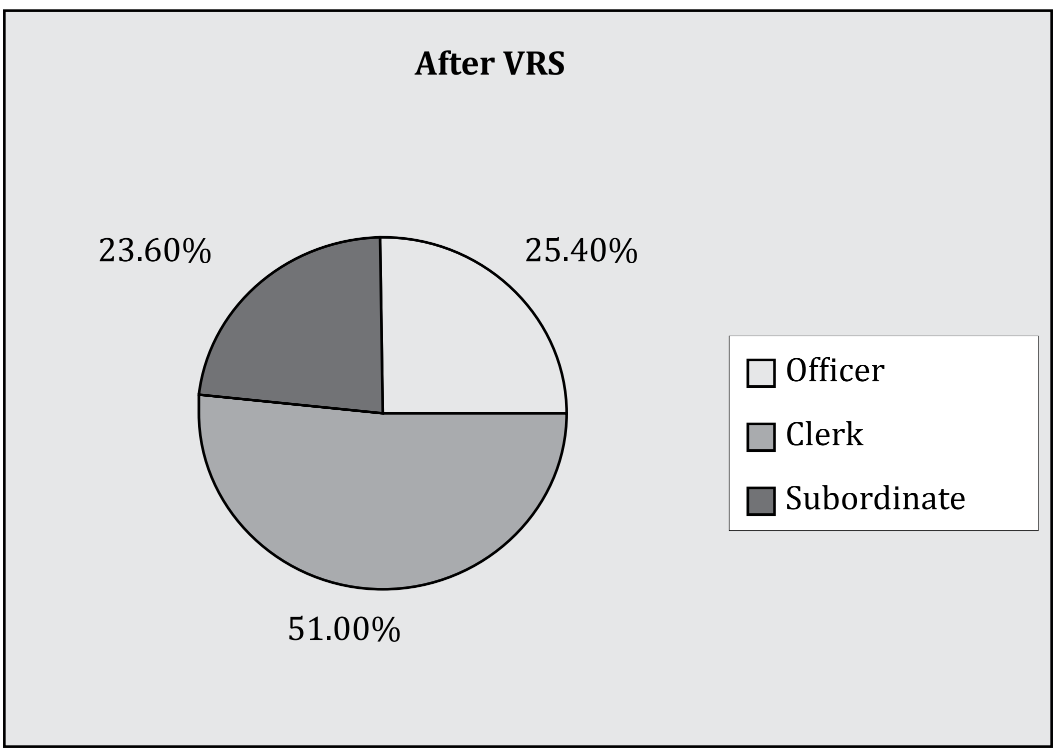

After VRS
23.60%
25.40%
51.00%
Officer
Clerk
Subordinate

Exhibit-3 : Representation of employee mix ratio for two different periods as per IBA bulletin.

Interpretation:

As per Exhibit-3 following interpretation can be made -

- Before VRS there were-
  - 27.60% officers,
  - 50.20% clerks and
  - 22.20% subordinates in the public sector banks.
- After VRS there were-
  - 25.40% officers,
  - 51.00% clerks and
  - 23.60% subordinates in the public sector banks.

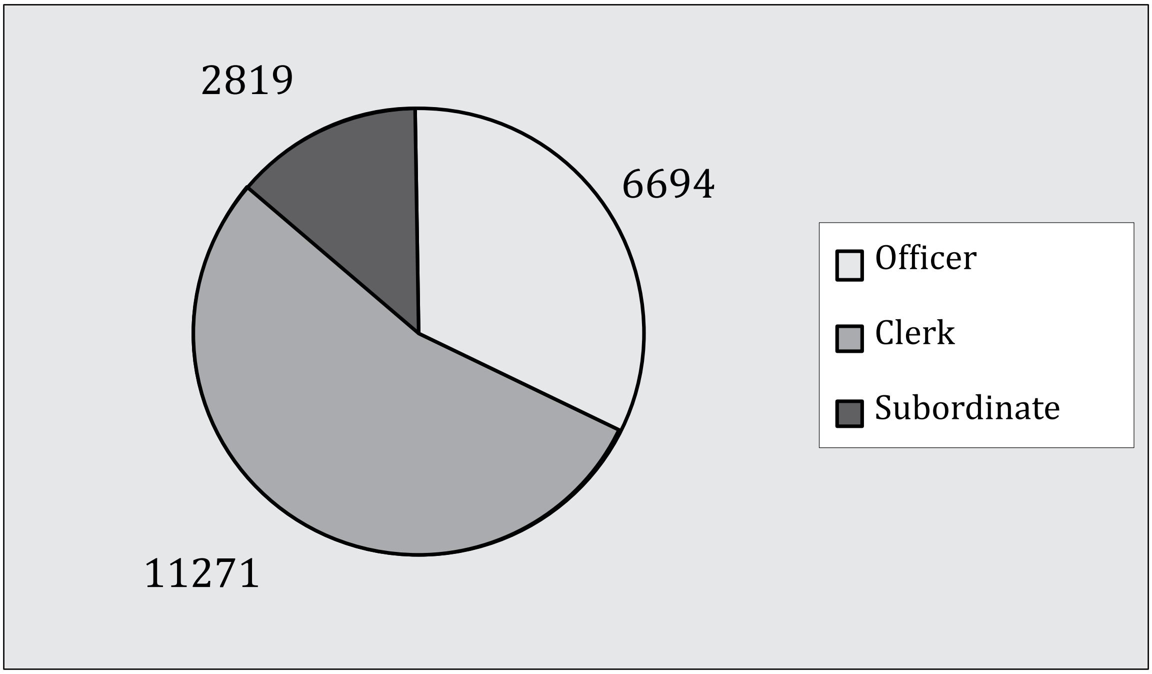


Exhibit-4 : Representation of 20,784 employees of State Bank of India (who was given VRS) as per their different grades.

Interpretation:

As per **Exhibit-4** following interpretation can be made -

- Out of 20,784 employees of State Bank of India, who were given VRS, there were-
- 6,694 officers,
- 11,271 clerks and
- 2,819 subordinates.

Conclusions:

The following conclusions can be drawn by analyzing the data available:

- The public sector banking system was overstaffed on the basis of business per employee (BPE).

- The staff costs of public sector banks for 2001-02 had dropped by 9.93 percent i.e. Rs. 2091 crore as compare to 2000-01. It shows that the policy to reduce staff from banks for reducing their staff cost burden through the implementation of Voluntary Retirement Scheme (VRS) was effective and given positive response.

- The total 20784 employees of State Bank of

India who were given VRS out of them there were 32.21 percent officers, 54.23 percent clerks and 13.56 percent subordinates. It shows that clerical staff of State Bank of India was comparatively more interested to opt Voluntary Retirement Scheme (VRS) as compare to officers and subordinates.

- The skill profile vis-a-vis the employee mix of public sector banks was changed as the impact of VRS. The major change was in the proportion of officers. It has gone down by 2.2 percent.

- Out of the total number of employees in 26 public sector banks (excluding corporation bank) around 11.7 percent employees opted Voluntary Retirement Scheme (VRS) before March 2001.

- On the basis of available information as data it can be concluded that, 75 percent of the bank officers who opted Voluntary Retirement Scheme (VRS) were in the 42-55 age group.

- On the basis of available information as data it can be concluded that, the main reason to downsize the bank staff was computerization and automation of bank functions. These changes in the working methodology of banks reduced the manpower requirement and forced the public sector bank to downsize their employee strength.

- On the basis of available information as data it can be concluded that, Voluntary Retirement Scheme (VRS) implemented among public sector banks was not demographically design and not based on competency profile of the employee.

- On the basis of available information as data it can be concluded that, counseling and out-placement were the issue that were conveniently forgotten by the public sector banks pre - and post - VRS.

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