International Journal of Advance Research in Science and Engineering
Volume No.07, Special Issue No.02, February 2018
www.ijarse.com
IJARSE
ISSN: 2319-8354

CHALLENGES FOR HUMAN CAPITAL IMPACTON PERFORMANCE OF BANKING SECTOR IN INDIA

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ABSTRACT

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.

Keywords: Human Capital, Productivity, Innovative, Entrepreneurship, Global Economy.

I.INTRODUCTION

Despite the fact that, there is a wide presumption that human capital has constructive outcome on firm performance, the idea of execution for human capital remains to a great extent unquestionable. The always showing signs of change business condition expects firm to take a stab for competitive advantages through dynamic marketable strategy which consolidate imagination and innovative. This is basically essential for their long term sustainability.

Without a doubt, HR input assumes a critical part in upgrading company's competitiveness (Barney, 1995). Because of current worldwide market changes, most firms have grasped the thought of human capital as a decent upper hand that will improve higher execution. Human capital advancement turns into a piece of a general push to accomplish savvy and firm execution. Consequently, firms need to comprehend human capital that would upgrade employee's satisfaction and enhance their performance.

Initially, generous investigations were done on human capital and their suggestions on organisation's performance on generally premise and clearly, human capital improvement will bring about more prominent performance and execution (Choudhury et al (2010). From the individual level, Snell & Dean, 1992) call attention to the significance of human capital relies upon how much it adds to the formation of competitive advantage. Froma economic perspective exchange cost demonstrate that firm gain competitive advantages when they claim firm-particular assets that can't be replicated by competitors. Hence, as the uniqueness of human capital builds, firm have impetuses to put assets into its administration and the point o diminish risk and benefit from profitable possibilities. Henceforth, individual needs to upgrade their competency abilities keeping in mind the end goal to be focused.

From the hierarchical level, human capital assumes a vital part in the key anticipating how to create competitive advantages. Following crafted by Snell et al, (1999) it expressed that an organisation's capital has two measurements which are esteem and uniqueness. Firm showed that assets are profitable when they permit enhancing adequacy, capitalizing on opportunities and minimizing threats. In the context of viable administration, esteem concentrates on expanding benefits in correlation with the related cost. In this sense, company's human capital can add esteem in the event that it adds to bring down expenses and provide increase performances.

II.HUMAN CAPITAL MANAGEMENT – A THEORETICAL ASPECT

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 andmanagement, 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 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 creationand 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 resourceprovides HR (including learning & development) with a new, strategically important role. This moves past the debateabout 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

IJARSE
ISSN: 2319-8354

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 toexecute new activities, such as organisation design, knowledge management and network development that do not figure largely in HR‘s traditional concerns.

III.OBJECTIVES OF THE STUDY

The overall objective of the study is to underline the background, current status and practice
adopted by banks for development of their human capital and challenges for human capital on performance of banks in India.

IV.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.

V.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 Pradhan Mantri 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.

VI.CHALLENGES FOR HUMAN CAPITAL IN BANKS

India has well diversified financial system with preeminent presence of banks spread across length and breadth of the country. The success of any organization lies on the availability and effective utilization of human resources and it is more so with service organizations like banks. 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.

Though, lot of efforts have gone into bringing technological & process congruence in the recent years, very little has been done on human resource front by PSBs, which is cause of serious concern. The emerging challenges are:

6.1 Massive Retirements:

The current decade can be known as **'Retirement Decade'** which is likely to pose demographic risk. As per BCG Report around 80 percent of middle management and 50 percent of the Junior officers will be attaining superannuation by 2020. PSBs are going to face unprecedented problems in the area of HR in the next few years as crucial competencies and know-how will be lost especially in senior management and middle management levels.

6.2 Employee Mix:

Historically, banks have been adopting a uniform three-tier Human Resource (HR) model where the frontline staff (mostly clerks) undertakes entry related jobs, the officers authorizes such transactions; and the movement of ledgers/vouchers are being carried out by subordinate staff. To cope up with the demand, banks continued to recruit staff with proper mix over the years. The Business models that are being adopted by PSBs require more frontline staff than supervisory/managerial staff since **Maker** & **Checker** concept is in vogue.

While the clerk to officer ratio of PSBs stood at 1.15, which demonstrates the co-existence of officers and clerks in equal number where as the ratio is **zero** for New Generation Private Sector Banks, amplifies the exclusive presence of officer cadre on account of extensive adoption of Alternate Delivery Channels for customer related activities besides outsourcing the routine and mundane jobs from the first day of their operations.

Among PSBs, wide variations are observed in Clerk to Officer ratio**,** ranging from 0.24 to 1.58, which needs immediate attention of the banks for adoption of suitable business / HR models to make use of available resources optimally. The frontline staff of the branches shall be manned preferably by younger personnel to cope up with the fast changing business environment. At the same time, the experienced staff may be relocated to handle control and compliance assignments, so that their expertise may be fully utilized.

6.3 Suboptimal utilization of Sub-ordinate staff services:

The high presence of subordinate staff strength among PSBs i.e. 1.74 lakh (23% of total workforce), is another major challenge since majority of branch operations are taking place either through paperless mode or outsourced and hence there is lesser need for subordinate staff. Banks need to adopt suitable redeployment exercises and also upgrade subordinate staff skills to promote them to clerical cadre in a phased manner for optimum use of their services for business development.

6.4 Increased Attrition Rate:

Gone are those days where employees used to stick to the same organization till superannuation. Hopping of the jobs for greener pastures is the order of the day for the present generation. Of late, the attrition rate is alarming (around 30%) among newly recruited staff on account of suboptimal pay package, increased work load, improper placements, poor working conditions and absence of career path in PSBs.

6.5 Talent Acquisition:

Banking being service-sensitive, the customer's requirements are to be handled with utmost care by the staff with knowledge and positive attitude. The increased business volumes coupled with discerning demands of the clientele warrants the banks to pay special attention on recruitment, training and deployment to transform its Human Assets in to **Knowledge**

Assets. Attracting talent and retention of talent have emerged as latest challenges in the light of dynamic economic, social and demographic environment. Banks need to focus their attention on the following emerging issues while planning for human resources.

 Though, convenience banking (e-banking) is gaining momentum over the years, conventional banking (branch banking) continues to be on the agenda of the banks as customers prefer relationship banking either paying visit to the branch or expect the bank to provide services at their door steps.

 Lending being a focused segment, there is an urgent need to develop specialized skills
in the area of appraisal, monitoring and Recovery to ensure the quality of credit portfolio. In this direction, some banks have already introduced **centralized model** for sanction and recovery of loans and others may follow the suit in the ensuing years.

 Emergence of **niche** players in specialized business segments viz., Housing, Cards, Mutual funds, Insurance, sharing of infrastructure including ATM Network is going to be the order of the day.

 Today, the banking has become imperative and all house-holds across the country irrespective of their social and financial status and they expect minimum financial services from the banking system.

 Increase of young population coupled with burgeoning middle income group segment is going to be another important growing area for banking business.

 The increased infrastructure development across the country is blurring the geographical barriers and making the rural populace on par with Urban. Hence, banking in rural areas needs relook in extending of services beyond mere opening of accounts and lending against crops. Banks may look for alternate cost effective business models to tap this segment.

 Strategic alliances/partnerships with national and international players for business development as well as other income.

The future banking space demands total transformation in the area of recruitment, training and deployment of staff and the banks need to focus attention on the following important/critical areas while acquiring talent from the market:

 Providing delightful service to the customers is a must for which the branches need staff with product knowledge and orientation towards customer service. This segment needs human resources with **normal educational** back ground coupled with positive attitude towards customers.

 Marketing is another important area in the changed scenario since it plays vital role in taking the bank‗s name to the market for brand building thereby business development. To handle this segment, banks require young and energetic human resources preferably **fresh graduates.**

 Rural Banking has immense potential for business development. The present recruitment policies of the banks are in favour of the persons hailing from Urban/Metro areas, who normally may not prefer to work in rural areas, which is a hindrance for smooth banking operations in rural areas. This may be addressed by adopting suitable models to attract **local talent**.

 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, Forex, IT related services, HRM, etc.

VII.AGE PROFILE – MISMATCH

The average age of PSBs staff is around 50 to 52 as against 30 to 35 of private sector banks, which has direct bearing on the performance of the banks. The proliferation of age profile of PSB employees is another major area of concern since the growing organizations require energetic and adoptive work force to deliver qualitative services to the customers especially the booming young segment who look for instantaneous, value added and cost effective tech savy services. Of late banks have started recruiting staff in large numbers and in the above backdrop, the industry is going to face peculiar challenge – Yawning Generation Gap as younger age group, below 30 years, employees are on the rise while majority of the remaining workforce will be entering into above 50 years age group. This emerging manpower profile will leave a generation gap between the young cohort of new hires and the experienced employees to whom they would report, which need to be addressed suitably.

VIII. RE-SKILLING

The formidable challenge before PSBs is to the need to learn new practices while ―unlearning‖ long-standing practices that are no longer a best practice. The business model of the past was founded on a predominance of back-office skills. The new business model, enabled by new technology, requires that additional skills be devoted to sales and customer service.

A recent survey on *Transforming Indian Banking* has very interesting findings — 30 per cent of customers surveyed said they do not feel emotionally attached to the bank and given a chance would not select the same bank again nor would they recommend it to friends and family. The answer to this wariness is obvious — poor customer service which can be addressed through relationship banking. Currently, PSBs have a young breed of bankers joining the ranks through aggressive recruitment drives. Coupled with an aging workforce, what comes to the fore is the importance of inducting talent, skilling new recruits, re-skilling experienced professionals with soft skills and leadership, and most importantly sensitization to customer requirements.

IX.TALENT RETENTION

In the last three years, PSBs have hired over 1.72 lakh people and, according to industry estimates, banks are going to recruit another one lakh people in different cadres during the current financial year. Talent retention is another major challenge for the banks since the present generation of employees tends to opt for job hopping for better prospects. Hence, PSBs are necessitated to focus attention on Employer Branding, Integration of HR with strategic vision & mission and business goals and introduction of performance linked placements, promotions and incentives to retain the talent besides initiating the steps to enhance the skill sets of the employees on an ongoing basis through appropriate training programs. Fruitful on-boarding experience especially in the first few formative years will go a long way in building strong relations and they likely to remain with the bank.

X. PERFORMANCE MANAGEMENT SYSTEM

Another area of concern is absence of proper Performance Management System (PMS). In fact PSBs are facing a peculiar situation with regard to staff that are ―promotable‖ but not ―postable‖ and people who are ―postable‖ but not getting promoted. This is because we have failed to discriminate between performers and non-performers. PMS should throw up future leaders, who are expected to do three important things viz., Plan, Inspire and Deliver. A time has come to PSBs to introspect whether we are on the right track to groom the leaders within
the organization. The need of the hour is to draw senior/experienced people and form a team with a specific assignment of ―Career Coach & Mentor‖ to execute comprehensive plan of
―Future Leaders‖.

XI. NON TRADITIONAL WORK RELATIONS

The key driver that motivates people in the knowledge era is not livelihood or job satisfaction but is the feeling of empowerment. In the changed scenario, the work force will get complex and banks need to juggle a wide variety of people with varied needs and preferences, resulting in an array of relationships – Regular / Part time / contractual / Regular on flexi timings etc. Peter Drucker had, more than a decade ago, expressed the need for what he called ―non-traditional‖ work relations - flexible schedules, contract arrangements, virtual teams, etc.

XII. TWO-WAY COMMUNICATION

Much of the communication in the banks is one way i.e. top down, which proved as weak and non-functional in many cases. Free flow information is a prerequisite to enhance transparency, thereby imparting credibility among employees. Technology tools like intranet, interactive portals, corporate e-mails, internet, social networks etc. can be adopted to reach out to employees. Innovations in employee engagement and creative ways of interacting with the frontline would greatly facilitate alignment between executives and the field staff.

XIII. SUCCESSION PLANNING

Banks need to have pool of qualified and potential work force especially at top level not only to lead the team at present but also to meet the future requirements of the organization. Although most PSBs identify succession planning is an important but little has been done in this regard. Banks have already started experiencing the gaps and likely to continue the situation in the ensuing years also. Of late, to tide over the problem, banks have adopted quick promotion system without exposure to leadership grooming, is really a challenge to PSBs. Hence, there is an imminent need to identify potential candidates for future leadership and groom them through a comprehensive strategy with formal and informal inputs on an ongoing basis.

XIV. REALIGNMENT OF BUSINESS MODELS:

Today, most of the Public Sector Bank branches undertaking multi tasks including deposit mobilization, processing of credit proposals, recovery of loans, selling of various fee based products with staff having normal banking background, which is causing to customer grievance since they expect instantaneous qualitative service, which PSBs are unable to provide especially in emerging areas such as Retail/Corporate lending, NRI services, Financial & Advisory services etc. The issues before PSBs are:

- Whether bank branches to continue the hierarchy approach or move towards lean business models?
- Whether to continue the existing decentralized approach or to move to centralized credit processing?
- Whether resource mobilization activities are to be outsourced or to continue with the branches?
- Whether marketing of third party products such as insurance, mutual fund etc., are to be handled by the branches or to be entrusted to Direct Selling Agents / Bank subsidiaries?

Further, the increased income levels and demographic trends necessitating the banks to revisit the existing business models and the adoption Next Gen Consumer Models for sustained growth rate. The adoption of new business models warrants realignment of human resources besides structural adjustments.

XV.CONCLUSION

The spread of education and employment opportunities coupled with financial inclusion initiatives may usher banking habit among the masses and likely to add another 700 million accounts taking the total client base to **1300 million** by 2030. Large population with high working age group is an important factor to boost economic growth further. This scenario is likely to add more number to Middle Class group which has different spending patterns. The increase in working-age population leads to virtuous cycle of increased income levels, structural rise in savings, greater investment and higher demand for goods and services. Finally, it leads to greater demand for financial services.

The Herculean task poses challenges, which warrants the banking industry to increase the branch network by two times and ATMs by 5 times in the next two decades. Adoption of low cost viable business models with delivery of Simple, Convenient and Value added products/services is the need of the hour. But this growth will need a large number of people. In order to cope up with the increased demand for banking personnel, there is an urgent need to introduce exclusive courses for Banking & Finance in the colleges & universities and also examine the need for setting up of Specialized Banking Institutions for the benefit PSBs as well as the students.

Though, banks have been recruiting in large numbers, majority of them are not evincing interest to work in rural areas. Ironically, there are still large numbers of young people with average academic background in Rural and

Semi-Urban areas, who are eagerly waiting for employment opportunities. It is the time for the Banks, Government and Regulators to pay focused attention on the above issues and initiate necessary steps to bridge the gap through providing employment opportunities to the unemployed youth for sustained growth of the banking industry and the economy.

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