# Holistic Development of Indian Banking Industry

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***Abstract-*** **Organizational Values serve as a catalyst in the development of the culture of the organization and those values shape the norms and behavior of its employees. This is because a better human being focuses his/her energy on positive aspects of life and thereby contributes to synergy at the workplace. HQD (Human Quality Development) helps us to become better human beings in addition to being good at skills. Sharma (2007) said, HQD is important for development of Organizations.**

**According to Prof. Subhash Sharma (2002), the essence of HQD lies in the idea of Character Competence of Corporation. While the concept of 'Core Competence' is useful at the enterprise level, the idea of 'Character Competence' is at the root of enlightened leadership of enterprises (Sharma, 2007).**

**The new concern in the corporate world is 'good governance'. To achieve the expected result in the modern era Stakeholders are expecting the corporations to behave in an ethical manner. This implies the need for holistic development. However, today these aspects have become important for organization's sustainability. It envisaged that measuring performance based on 'Character Competence of the Organization' will pave a way in this direction.**

**The paper will encompass the foundational concept and factors that are important for Character Competence that will lead to organization's sustainability and progressive growth of Indian Banks. The concept of Character Competence is grounded in the notion that when corporate governance towards good governance will be in effect in the Banking organizations it will lead to organizational growth.**

***Keywords -*** **Character Competence, Corporate Governance, Good Governance, Human Quality Development, Organization's Sustainability.**

## I. INTRODUCTION

Every nation is guided by certain norms, traditions that are shared by the government and the citizens. A national commitment to such values greatly influences the content and the quality of governance. "In the words of Wolfensohnn (1999), "Corporate Governance is about promoting corporate fairness, transparency, and accountability."

Sharma (2012) is of the opinion that due to unethical business practices, corporate failures, unethical and insufficient disclosures made by the organizations created the demand for the concept of corporate governance. He anticipated that the number of frauds has increased in regards to intensity and magnitude. Despite the implementation of corporate governance among the corporate organizations, corporate scandals persist. The collapse of Global Trust Bank, the UTI fiasco & spat between Ambani brothers caused concern for investing in general public (Fernando, 2009). Many factors were contributing to the increase in the rate of frauds like feudal mindset, greed, financial regulations, and inequality that were prevailing in the society. There were significant changes made to the regulations and their compliance of corporate governance norms, but there is a need of a team or a workforce that is fully committed to observe the practices.

In India, Corporate Governance guidelines & codes of best practice arise in the context of, and are affected by, differing national frameworks of law, regulation, & stock exchange listening rules, and differing societal values.

In the light of the inherent limitations of the market in assessing correctly the quality of governance within corporations, several agencies, including particularly the international rating agencies now been engaged in the task of assessing the quality of governance in corporate entities. On the parameter of corporate governance when the rating agency judges any company it is not link to any level of shareholder value, howsoever-measured (Ghosh, 2007). Rating of the corporation by the rating agencies is helping the stakeholders to assess the quality of corporate governance.

For achieving sustained economic growth, good governance can help to create that environment. Quality of organizations will define the good governance and will rely on the individual will of the leader. To define Good Governance there are eight major characteristics which can be listed down as equitable, accountable, transparent, consensus, participation, responsive, inclusive & follows the rule of law (Good Governance, 2008).

Till date, very few countries have come close to achieve good governance, and to maintain the sustainability of the human development, there should be remedies taken towards to achieve ideal governance (Murthy, 2006). Good Governance will help to improve the environment and the performance of corporations.

However, there are companies that are following good corporate governance and why they are following is because of some important reasons. Diwedi (2010) opines that one set of companies follows it because it is just a legal obligation; second reason is the pressure of globalization. In case of globalization, companies need to focus on transparency and ethical standards because foreign stakeholders are relying on that. The third motive is to show an image of a good corporate citizen so that the trust of stakeholders will be more and more crucial; fourth reason was that the companies, which believe that the good governance practices is good for them, will go beyond the letter of the law & practice corporate governance in its true spirit.

As the corporate failures are increasing, there is certainly need for more of these fourth types of companies as mentioned above, who believes that good governance is good for them and they want to practice the same in good spirit.

In India, the Corporate Governance practices are improving year after year, particularly in the banking sector, which is a good sign from the industry's perspective. The need for Corporate Governance in Banks is because the financial system is the spine of the economy and Banks are the main players in the Indian Financial System. For all the regulations and the nature of the corporate governance, the Reserve Bank of India has the responsibility. The Bank has a well-defined Corporate Governance code. SBI is committed to the best practices in the area of Corporate Governance, "The Bank believes that the proper Corporate Governance facilitates effective management & control of Business. This, in turn, helps the bank to give value to all its stakeholders and also maintain business ethics" (SBI Annual Report, 2013). HDFC Bank has also defined the code of Corporate Governance. It says, "The Bank believes in adopting & adhering to the best Corporate Governance practices & continuously benchmarking itself against each other practice" (HDFC Report, 2005). Banks are different from other organizations in many aspects and that is why that makes corporate governance more important for the banking sector.

The path to good governance is laden with difficulties. It makes imperative for the companies including the financial organizations to be transparent, ethical, accountable, and to disclose information to the concerned parties. However, to lift the overall corporate governance practices in the country, there will be a need of new models to build a strong foundational base. Prof. Subhash Sharma (2010) suggested a need of a new 'Tripod Model' based on the inter-linkages & integration of market, society, & self; where, the three will be considered as the "Co-Creators of Wealth with grace." The new model will focus on the ethical foundation that was missing in the old corporate model. Ethical foundation of this new corporate model will be based on the new balance of teleological, deontological and virtue ethics approaches to business ethics.

Earlier organization focused on efficiency, profit, and competition and their primary objective was profit maximization. Slowly and gradually, profit maximization inclined towards wealth maximization, which included risk and time. Many management theories have taken place under the offset of only one E that is efficiency and ignored ethics and equity. The idea of core competence as a means to improve the competitive advantage of corporations was suggested by Prahlad & Hamel (1990). Sharma (2002) suggested the concept of character competence of corporations. Character competence is indicative of the values and ethical basis of the corporation. A corporation may do good business based on its core competence but may pollute environment and be socially irresponsible.

Idea of Character Competence brings the concept of corporate ethics and corporate character in sharper focus. It could be considered well for a foundational concept for better Corporate Governance. To operationalize the idea of Character Competence we have to make the index of Character Competence, which can be drawn with the help of stakeholder theory. In future corporates can be ranked according to the Character Competence Rating and that can be available to all the stakeholders of the organization which will surely improve the Organizational Performance.

## II. LITERATURE REVIEW

Corporate Collapses had an adverse effect on many people: shareholders who have seen their financial investment reduced to nothing and employees who have lost their job. There have been many corporate frauds, which have led to grave losses to innocent people worldwide. Developing a high quality system of corporate governance is very critical if companies are to seize the plethora of opportunities provided by the sweeping changes, which would seek to control over the accompanying threats. Given this context, over the past few years, a number of regulations and recommendations have drawn up – both at the global level as well as in many individual countries on the required levels of corporate governance.

Chakrabarti et al (2008) provided a detailed analysis of the status of the corporate governance system in India. The authors described the major changes that happened in the governance & regulatory system in India including the bank governance & the public sector enterprises governance. The problem in banking industry is that the politically powerful families control the banks and the political system, as a result the regulatory policies frequently used to impede, not support, effective corporate governance (Levine, 2003). In comparison to any other business sector firms, governance problems at bank can affect the entire financial system of the company. Hence, to strengthen the financial system of the country, it is necessary to enforce effective Corporate Governance. The strict reasons for adoption of corporate governance in these organizations are as follows: Firstly, Banks are the mobilizers & dispensers of funds which is a crucial role, so, a healthy & stable Banking system is necessary for the health of the economy. Secondly, Banks act as a custodian of money and thirdly, a Bank has Government dominance (Bansal, 2005). Corporate Governance is important for all types of organizations, but more so, for Banks, Mutual funds & Financial Institutions to manage the financial system of the economy.

Carroll (1978) surveyed managers from different hierarchical levels. He found that managers who were lower in the organizational structure felt more pressure to compromise their personal values in order to achieve company goals. In a

Wall Street Journal survey, 4 out of 10 executives reported that they asked to behave unethically. The survey research suggests that an ethics problem exists. It suggests that managers do think about ethical dilemmas within the context of the organizations, and report conflicts between personal values and the values of others in the organization. A highly developed sense of ethics enables corporate governance to build a trusting, long-term relationship with the consumers. Many good organizations, in order to uphold and ensure ethical practices within the organizations and outside have developed a 'code of conduct' for their employees. Corporate governance, after all, is a system embedded with confirmation of values and ethics towards making the companies good corporate citizen. Business ethics & corporate governance of an organization go hand in hand. Lacks of ethics lead us to unethical practices in the organization. *A Sloka from Rigveda says "A business should benefit from business like a honey bee, which suckles honey from a flower without affecting its charm & beauty." (Fernando, 2009).*

Prof. Sharma (2007) suggested and recommended that new view leads us to the idea of Human Quality Development (HQD) in Individual, Social and Organizational contexts as a foundational premise to improve the work place environment and to improve the quality of products and services. Therefore, it indicated that, the quality of human beings depends on the quality of goods and services. Hence, the idea of HQD has the relevance for the organizations. Sharma in 2003 gave five conceptual models on HQD that are useful for the social and organizational contexts. HQD helps us to become better human beings in addition to being good at skills. Hence, HQD is important for development of Institutions & Organizations. In the Indian context, SELF has always been the first point to change.

According to Prof. Subhash Sharma, the essence of HQD lies in the idea of Character Competence of Corporation. While the concept of 'Core Competence' is useful at the enterprise level, the idea of 'Character Competence' at the root of enlightened leadership of enterprises (Sharma, 2007). The idea of core competence as a means to improve the competitive advantage of corporations was suggested by Prahlad & Hamel (1990). Sharma (2002) suggested the concept of character competence of corporations. Character competence is indicative of the values and ethical basis of the corporation. A corporation may do good business based on its core competence but may pollute environment and be socially irresponsible. HQD implies the development of 'Character Competence of Corporation'.

Earlier organization focused on efficiency, profit, and competition and their primary objective was profit maximization. Slowly and gradually, profit maximization inclined towards wealth maximization, which included risk and time. Many management theories have taken place under the offset of only one E that is efficiency and ignored ethics and equity. Ignoring the other Es will create situations in which organization acquire a devilish character. These days that is already happening in the case of all modern organization. Economic development paradigm related to the market values, which gave focused on the Human Resource development and Economic value addition. Economic development was based on Artha and Kama, subsequently the model involved into multiple stakeholder models. Besides shareholders, employees, government and society at large need focus in this environment, which came into heading of stakeholder.

Corporate failures leaded to the need of ethics, values and recognition of 'Self'. So, corporate model moved from the stakeholders towards corporate citizens. It encompassed on ethical and environmental concerns. Changing phase of society creates expectations from the point of view of all the stakeholders. Hence, corporations need to change from being a corporate citizen to 'Social Institutions'. They have to achieve a synergy between efficiency, ethics, equity and needs to be concerned with the transcendental values of the environment, psycho-spiritual advancement etc. Transcendental values of environment achieved by focusing on the ecology.

Those organizations, which have a one-sided emphasis on efficiency, could create adverse consequences for employees and for society. For being corporate as 'Social Institutions' there should be an integration of Core Competence, Corporate Social Responsibility & Character Competence. Equity Dimension reflected by CSR & CC of Corporation reflects good governance & ethics in practical, which is reflective of ethics dimension. To work efficiently and contribute towards the society, organization needs to follow its 'Social Dharma'. Holistic development paradigm will balance between social, spiritual, and market values. Focus on Human, Social and Spiritual values addition. It's based on Dharma, Artha, Kama, & Moksha.

In the Purushartha theory of management given by Sharma (2006) the four purushartha are as follows: Transcendental values, ethical dimension, concern for people and the pursuit of profit. The model suggests that corporations should have concern for profit, people, & planet with emphasis on ethics & good governance. Those organizations, which have a one-sided emphasis on efficiency, could create adverse consequences for employees and for society. For being corporate as „Social Institutions‟ there should be an integration of Core Competence, Corporate Social Responsibility & Character Competence. Equity Dimension reflected by CSR & CC of Corporation reflects good governance & ethical practical, which is reflective of ethics dimension. To work efficiently and contribute towards the society organization need to follow its „Social Dharma‟. Holistic development paradigm will balance between social, spiritual, and market values. Focus on Human, Social and Spiritual values addition. It's based on Dharma, Artha, Kama, & Moksha.

To maintain these ethical programs, there is a need to follow the rules and regulation and comply with that. It will help the organizations translate and apply the ethics to help in workplace behavior and the operations. Suggesting a lack of character is more serious than a lack of competence. Character Competence is an idea of an extension of corporate governance.When there will be a combination of competitive advantage with good governance it will thus create an idea of "Wealth creation with grace" which will make organizations of national & international importance. There is a significant relationship between Character competence and organizational performance.

## III. RESEARCH METHODOLOGY

The objective of the research paper was to study the conceptual foundation of Character Corporation of the Organization and its impact on the Organizational Performance.

The Indian Banking Sector comprises banks that are divided as Public Sector Banks, Private Sector Banks, Foreign Banks, and Co-operative Banks etc. However, Corporate Governance binds to all types of Banks, but for precise focus, I selected the Banking Companies listed on the BANKEX [BSE]. The main reason behind the selection of these banks is that their scripts dominate and influence the stock movement of the country. Further, banks considered for the Bankex represent the major banks of the country.

The data collection was done with the help of structured questionnaire. The questionnaire used was based on 5-point Likert scale (where, 1 is Strongly Disagree and 5 is Strongly Agree). All the questions included in the questionnaire have been framed from literature review with justification of its validity and reliability.

The questionnaire survey process was conducted in two cities Delhi and Mumbai and the target of this survey were 50 top and middle level managers from different Public, Private, and Foreign Banks. The information about the top and middle level managers included their name, designation, and email address and was collected in person and through email by the researcher.

The hypothesis framed for the study was to prove that there is significant impact of Character Competence on Organizational Performance.

## IV. DATA ANALYSIS & INTERPRETATION

Prior to the implementation of the research, factor analysis was conducted. Where, KMO of Character Competence (CC) and Organizational Performance (OP) was .804 and .690 which is larger than 0.5. Since KMO value lay closer to 1 & Barlett's test significance at 0.05 levels it can be noted that gathered data is valid.

Prior to the research, the reliability of the research was tested taking 50 respondents. The data collected was tested under Cronbach's Alpha reliability testing.

Case processing validity was 100% for all N=50. Reliability for total set was 0.851 for character competence and 0.687 for organizational performance. Since, reliability coefficient lie in the range of beyond 0.65 this determined acceptable level of reliability.

The Hypothesis framed was tested.

Ho – There is no impact of Character Competence on Organizational Performance.

Ha – There is a statistically significant impact of Character Competence on Organizational Performance.

The Pearson regression coefficient was found as 0.824, R-square as 0.679 and adjusted R square as 0.672. Adjusted R-square had shown that a handsome 67.2 percent variance in organizational; performance could have been explained by the predictor that was character competence. The standard error of estimate was found as 1.73875.

Further Durbin Watson Statistics was found as 1.962 which was well within the lower and upper bounds at 5 percent level of significance, thus showed no presence of auto correlation.

Overall model fitness was found through *F*-Statistics with 1 and 10 degrees of freedom as 101.435 with p value $<=0.001$ significance value.

I had analyzed residuals for checking the assumptions of ordinary least square regression and found no violation of assumptions. Variance Inflationary Factor was found 1.000 which was less than the prescribed upper limit of 10, indicating absence of Multi-collinearity among predictors. As the significance is $p<0.01$ of Character Competence; the alternate hypothesis, there is statistically significant impact of character competence on organizational performance. Thus, alternate hypothesis is accepted and Null hypothesis is rejected.

## V. CONCLUSION

Organizations have undergone an evolutionary process from a competitive, profitable organization to a highly appreciable and socially exemplary organization. Nowadays, organizations became pivotal part of our social structure and somewhere or the other every human being is related to it. As all these organizations are changing, so is the need for constantly change in the corporate laws which are governing them. Corporate governance is concerned with the relationship between the management and the best interest of the stakeholders. Strong stakeholder relationship will bring better organizational performance. Organizational performance is improved by the importance given to the stakeholders and they can heavily improve the business needs if it is to be successful. Stakeholders have little expectation that can be an indicator of current as well as future performance. For building foundational premise to improve the work place environment and to improve the quality of products and services human quality development is the need of the hour. Human quality development is important for the development of organization. The essence of HQD lies in Character Competence. The objective to study the conceptual foundation of Character Competence of the Corporation was achieved. Character competence is indicative of the values and ethical basis of the corporation. A corporation may do good business on the basis of its core competence but may pollute environment and be socially irresponsible. Corporate failures leaded to the need of ethics, values and recognition of 'Self'.

Organizational performance can be improved by the importance given to the stakeholders and they can heavily improve the business needs if it is to be successful. For keeping a balanced approach, banks should not focus on one stakeholder at the cost of other. Organizations should specify the expectation attributes and which attributes will satisfy the stakeholders.

With the help of the literature review and statistics there is impact of Character Competence on Organizational Performance. Strong organizational values can be built by welfare of the employees, there should be flexibility in the culture of the organization so that there openness to discuss. People strongly live with the values of the organization and accept the new entrants. Human quality development relied on practicing ethical standards, whistle blowing policy and fostering employee's creativity. Active working towards the society will increase the organizational performance.

But, somehow presently what we see routinely in different organization is either non-achievement of these principles partially or wholly in many fronts of the department of the organization. That is why we are seeing organization failures, which are resulting in less outputs and efficiency and on the individual front, increase of unrest or frustration levels. The extent to which the banks actually practice the professed corporate governance norms is still a moot question. Indian Banking Industry needs to work on the various aspects to fill in the gap between the current and the desired Character Competence. Those aspects can be development of human quality development in organizational culture as this variable defines 87% of the factor. Other aspects that are important are that organization should have a heart that could understand the grievances and problems of the entire individual. All these aspects will narrow down the gap between the current and the desired Character Competence of Indian Banking Industry. According to the literature review and with the help of the statistical analysis I derived that there is an impact of corporate governance on organizational performance. In the corporate world, there is a significant, and increasing, amount of research into corporate governance and its relationship to organizational performance.

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