

# Impact of Voluntary Retirement Scheme (VRS) on Competitiveness and Cost Efficiency in Indian Public Sector Banks a Case Study of the SBIN

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**Abstract**— This study examines the implications of the Voluntary Retirement Scheme (VRS) implemented by Indian public sector banks, specifically focusing on the State Bank of Indore. Introduced to enhance cost efficiency, operational productivity, and competitiveness within the banking sector, the VRS aimed to streamline human resources in response to increased pressures from economic liberalization and globalization. The research investigates VRS's effects on profitability, productivity, and human resource optimization, as well as its psychological impact on employees who either accepted or declined the offer. The study evaluates shifts in financial performance metrics such as business and profit per employee and examines changes in HR management strategies, including policy development, employee acquisition, and organizational restructuring. Further, it explores the psychological responses among "survivors," or remaining employees, addressing factors like morale, loyalty, and stress levels. Using paired t-tests, regression, and factor analysis, this research assesses VRS's success in achieving its intended goals and provides insights into how HR strategies can be optimized for improved efficiency in a competitive, liberalized economy. Findings contribute to understanding the broader impact of VRS on workforce dynamics and organizational health within the public banking sector.

**Keywords**—Voluntary Retirement Scheme (VRS), Organizational Restructuring, Employee Morale, Employee Loyalty, Employee Stress, Survivor Employees, Paired t-test, Regression Analysis. Factor Analysis, Banking Sector, Workforce Dynamics, Organizational Health

## I. INTRODUCTION

The current study aims at understanding the nature of the banking industry with reference to competitiveness and cost efficiency in a liberalized and globalized economy. The literature review and conceptual framework throw light on the responses of Indian Public Sector Banks in the wake of competition created by an open economy and globalized operations. Other sectors of industry viz. consumer durable industry, capital goods industry and services too felt an impact. The Indian Public Sector Banks have been the most important pillars of the Indian economy since independence. The quantum of money circulation and cost of it depends on the banking system. In fact, since the nationalization of banks i.e. 1969 onwards industrial and agricultural growth in India happened due to directed credit policy adopted by the government in a monopolistic economic environment at the cost of operational efficiency and priority sector lending by banks. Other sectors of Industry were supported but the focus remained on the socialistic pattern of financing by Banks. Figure 1 to 5, represents the effectiveness of VRS and HR initiatives in helping PSBs balance operational goals and sector competitiveness in a changing economic landscape. Each level depends on foundational policies, structural reforms, or strategic implementations that influence how effectively Public Sector Banks can adapt and remain competitive.

### Liberalization & Globalization

- └ Triggers increased competition and efficiency demands for Public Sector Banks (PSBs)
  - └ Banking Industry Competitiveness and Cost Efficiency
    - └ **Indian Public Sector Banks (PSBs)**
      - └ Central pillars of the Indian economy (since nationalization in 1969)
        - └ Support for industrial and agricultural growth through directed credit policy
          - └ Operate in a socialistic financing model, sometimes conflicting with competitiveness

Figure 1. Liberalization and Globalization

### Economic Growth and Banking Sector Efficiency

- └ Banking sector performance is essential for economic competitiveness
  - └ PSBs must meet RBI guidelines and adapt to a liberalized economy
    - └ **RBI and Indian Banks Association (IBA) Policies**
      - └ Provide regulatory frameworks toward international standards
        - └ Set norms for downsizing and address open-market challenges

Figure 2. Economic Growth and Banking Sector

Efficiency

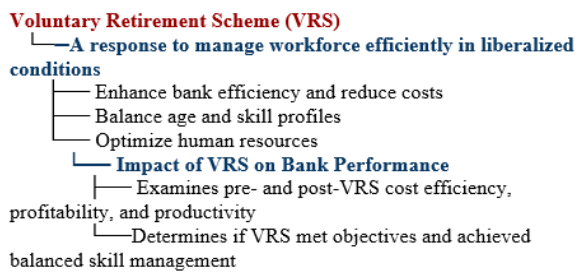


Figure 3. Voluntary Retirement Scheme (VRS)

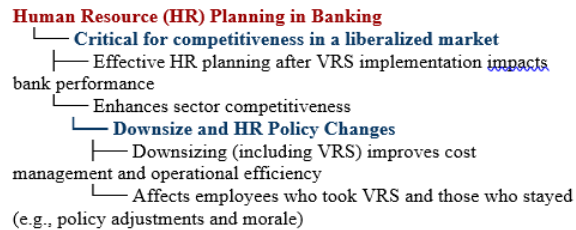


Figure 4. Human Resource (HR) Planning in Banking

Relationships and Outcomes

**Liberalization & Globalization** → Increased competition and efficiency needs in PSBs

**PSB Efficiency & Economic Growth** → An efficient banking sector boosts economic competitiveness

**VRS** → Tool for cost management and operational efficiency, reshaping HR dynamics

**RBI/IBA Policies** → Norms and guidelines to standardize banking operations and maintain competitiveness

**HR Planning & VRS Impact** → Understanding employee morale, competency, and bank performance

Figure 5. Relationships and Outcomes

Literature shows growth of any economy is dependent on the efficiency of the banking sector. In other words, the overall competitiveness of different sectors of the economy depends on the performance of the banking sector. The Indian Public Sector Banks have to perform as per the requirements created by the liberalization of 1991. The RBI responded to these by creating rules, norms and guidelines as suggested by various experts and committees to improve the health of Indian Public Sector Banks.

Out of so many other norms to bring the Indian Banking Industry to par with International standards, VRS was one of the responses taken by all nationalized banks to improve the efficiency and effectiveness of banks. Banks, so as to reduce costs and improve profitability, also to achieve balanced age and skill profiles and optimize human resources, have implemented the VRS.

The current study aims at understanding the impact of VRS on the above parameters. Thus it will lead to finding how it resulted in desired objectives of VRS in banks. The current study is an endeavor to find the achievement/failures of

desired objectives. To some extent helps in understanding the relationship of multiple factors/variables on the cost of banking operations, profitability and effectiveness of operations in pre and post-VRS paradigms. It shall provide an assessment of the importance of HR planning, leading to the competitiveness of public sector banks in a new environment.

Most of the studies done on VRS or interrelated topics focus largely on financial indicators and human resource aspects of VRS viz. people who have opted for VRS and/or people who remained in the organization called as survivors. Few of them touch on change in HR policy and its impact on employees, both who opted or did not opt for VRS. Indian Banks Association (IBA) and Reserve Bank of India (RBI) initiated a downsizing exercise with a view to affect policies and operation issues at large, which in turn leads to facing challenges of the open market economy. RBI-initiated VRS mechanism has a profound impact on the performance of banks. The present study is an attempt to find out whether the most lucrative ever golden handshake offer given by banks, has been able to fulfil its desired objective or not.

II. VRS and Related Terminologies

1. **Voluntary Retirement Scheme (VRS)** -VRS is a downsizing strategy employed by organizations, particularly in the public sector, allowing employees to voluntarily retire with financial incentives. It aims to reduce the workforce, enhance cost efficiency, balance age and skill profiles, and optimize human resources to meet organizational needs.

3-components of VRS

(1)**Compensation Package**: VRS includes a generous financial package to incentivize employees to retire early, offering terminal benefits that can include severance pay, retirement benefits, and sometime medical benefits.

(2)**Employee Participation**: VRS is voluntary, allowing employees to opt in based on individual preference rather than mandatory requirements.

(3)**Strategic Workforce Reduction**: Aimed at creating a leaner, more efficient organization by shedding surplus labor. These 3-components with alternatives are depicted in Figure 6

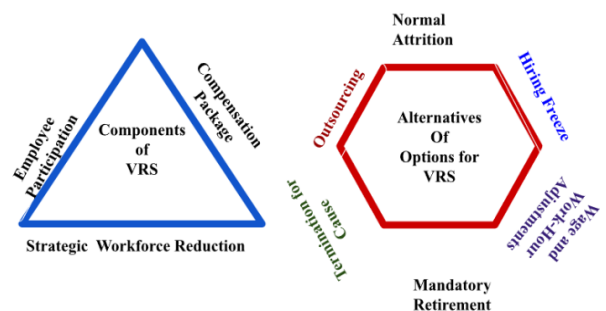


Figure 6. Components of VRS and Alternatives of VRS

2. **Cost Efficiency** -In the context of public sector banks, cost efficiency refers to the ability to minimize operational

costs, including staff costs, while maintaining or improving service quality. VRS is one approach used to achieve cost efficiency by optimizing the workforce.

3. **Competitiveness**-For banks, competitiveness indicates their ability to operate effectively in a liberalized and globalized economy. This involves adapting to regulatory changes, improving operational efficiency, and enhancing service quality to compete with both domestic and international financial institutions.

4. **Profitability**-A measure of a bank's financial health, profitability assesses how effectively banks generate profit relative to their assets, often measured using metrics like Return on Assets (ROA), profit per employee, and business per employee.

5. **Productivity** -Productivity in banking refers to the efficiency of resource utilization, often evaluated through metrics such as business per employee and profit per employee. VRS can impact productivity by altering staff costs and workforce composition.

6. **Human Resource Optimization**-It involves maximizing the effectiveness of human resources by aligning workforce skills, age profiles, and employee composition with organizational goals. In banking, this often means retaining talent and creating a balanced workforce for improved service delivery and cost-effectiveness.

7. **Economic Liberalization**- refers to policy reforms aimed at reducing government intervention and allowing greater private sector involvement in the economy. In the Indian banking sector, liberalization began in 1991, prompting banks to adapt to increased competition and efficiency requirements.

8. **Globalization** -In banking, globalization denotes the integration of domestic banking with the global economy, increasing exposure to international markets, competition, and standards. It requires banks to adopt new technologies and practices to remain competitive.

9. **Human Resource Management (HRM)**-HRM encompasses policies and practices for recruiting, developing, and retaining employees. In banks, this includes managing VRS impacts, workforce planning, performance appraisal, and employee morale, loyalty, and stress.

10. **Organizational Restructuring** -This refers to the process of reorganizing a bank's structure to improve efficiency and meet strategic goals. Restructuring may include workforce reduction through VRS, changes in organizational hierarchy, or adjustments in reporting procedures to enhance responsiveness and productivity.

11. **Employee Morale**-Employee morale indicates the motivation, enthusiasm, and job satisfaction levels of employees. VRS and other organizational changes can

impact morale positively or negatively, affecting productivity and loyalty.

12. **Employee Loyalty** - Loyalty reflects employees' commitment and attachment to their organization. After VRS, remaining (or "survivor") employees may experience altered loyalty due to perceived job insecurity or changes in organizational values and culture.

13. **Employee Stress** - In banks, stress can arise from workload changes, uncertainty due to restructuring, or job insecurity. VRS may increase stress for "survivor" employees who are required to take on additional responsibilities or adapt to changing roles.

14. **Survivor Employees** - Employees who remain in the organization post-VRS or any downsizing initiative are referred to as "survivors." These employees may experience a mix of increased workload, survivor guilt, and stress, impacting their performance and attitude toward the organization.

15. **Paired t-test** - A statistical test used to compare the means of two related groups. In this study, it is used to compare pre-and post-VRS metrics such as profitability, productivity, and staff costs to assess the impact of VRS.

16. **Regression Analysis** - A statistical technique for examining the relationship between dependent and independent variables. In the context of VRS, regression analysis may be used to understand how factors such as HR policies or employee morale influence productivity and profitability.

17. **Factor Analysis** - A statistical method used to identify underlying relationships among variables by grouping them into "factors." In this study, factor analysis helps identify the psychological and operational impacts of VRS on employees and assess the weight of each impact.

18. **Banking Sector** - Refers to the network of financial institutions involved in providing banking and financial services, primarily public sector, private sector, and cooperative banks in India. The study focuses on how the Indian public banking sector responds to economic liberalization and globalization through VRS and other restructuring efforts.

19. **Workforce Dynamics** - The changes and movements within an organization's workforce, including hiring, retiring, restructuring, and downsizing. In banking, workforce dynamics are critical for HR planning and managing employee morale and productivity post-VRS.

20. **Organizational Health**- A measure of an organization's overall well-being, encompassing employee morale, financial stability, and operational efficiency. In banks, VRS and restructuring efforts are aimed at improving organizational health by creating a balanced workforce and enhancing cost-efficiency and competitiveness.

**III. Dependency and Relationship**

Following section presents the concepts from the foundational influences at the base (like external economic forces) up to the direct outcomes and effects on the organization and employees. Here’s how it would look

**1. External Economic Forces**

**Economic Liberalization Policy** changes that reduced government intervention and introduced competition in the banking sector, initiating the need for VRS.

**Globalization** Increased exposure to international standards and competition, pushing banks to optimize resources and adopt cost-efficiency measures like VRS.

**2. Organizational Goals and Strategies**

**Cost Efficiency Goal** to reduce operational costs and improve financial efficiency through workforce optimization.

**Competitiveness** The need to remain competitive in a global market by optimizing operations, enhancing service quality, and restructuring.

**Organizational Restructuring** A strategic approach to adjust organizational structure for improved efficiency, which can involve VRS.

**Human Resource Optimization** A strategy to align the workforce composition, skills, and age profile with the organization’s needs for cost-effectiveness.

**3. Implementation Mechanism**

**Voluntary Retirement Scheme (VRS)** A tactical approach within restructuring strategies to offer employees the option to retire with financial benefits, thus reducing workforce size and aligning with goals of cost efficiency and competitiveness.

**4. Direct Organizational Outcomes**

**Profitability**-Improved through reduced staff costs and streamlined operations.

**Productivity**-Impacted by changes in workforce dynamics, evaluated using metrics like profit per employee and business per employee.

**Workforce Dynamics**-Changes in hiring, retiring, and restructuring patterns within the workforce due to VRS.

**Organizational Health**- For the overall well-being of the organization, considering morale, efficiency, and stability as influenced by VRS.

**5. Human Resource Management (HRM) Impacts**

**Human Resource Management (HRM)**-Involves policies and practices managing the effects of VRS, focusing on workforce planning, performance, and morale.

**Employee Morale**-Morale can be affected positively or negatively by VRS, influencing motivation and job satisfaction.

**Employee Loyalty**-The level of commitment to the organization among remaining employees, potentially impacted by perceived job security.

**Employee Stress**-Increased due to restructuring or job insecurity among survivor employees, impacting performance and productivity.

**Survivor Employees**-remaining employees who may face added responsibilities, stress, or motivation challenges due to workforce reductions.

Table 1. Comparative Analysis Table Key Aspects of VRS in Indian Public Sector Banks

Category	Aspect	Description	Relation to Previous Response
External Economic Forces	Economic Liberalization	Policy changes reducing government control and introducing competition, creating the need for VRS.	Triggered competition and efficiency demands in PSBs.
	Globalization	Exposed banks to international competition, driving resource optimization and cost-efficiency.	Necessitated reforms to align with global standards and benchmarks.
Organizational Goals and Strategies	Cost Efficiency	Focus on reducing operational costs through workforce optimization.	VRS introduced to manage costs and improve profitability.
	Competitiveness	Enhanced service quality and restructuring to compete globally.	PSB efficiency linked to economic competitiveness.
	Organizational Restructuring	Adjusting organizational structure for better efficiency, often involving VRS.	VRS identified as a tool for strategic workforce restructuring.
	Human Resource Optimization	Aligning workforce composition and skills with organizational goals for cost-effectiveness.	Essential for HR planning post VRS implementation.
Implementation Mechanism	Voluntary Retirement Scheme (VRS)	Tactical approach offering financial benefits for voluntary workforce reduction.	Direct response to liberalization challenges and cost pressures.
Direct Organizational Outcomes	Profitability	Improved via reduced staff costs and streamlined operations.	Pre- and post-VRS profitability analyzed to assess impact.

	<b>Productivity</b>	Assessed through metrics like profit per employee and business per employee.	Productivity shifts linked to workforce dynamics and VRS outcomes.
	<b>Workforce Dynamics</b>	Changed hiring, and retiring, and restructuring patterns due to VRS.	Reflects HR changes critical to operational efficiency.
	<b>Organizational Health</b>	Overall morale, stability, and efficiency influenced by VRS.	Key to assessing the success of restructuring efforts.
<b>Human Resource Management (HRM) Impacts</b>	<b>HR Policies</b>	Adjusted to manage VRS effects, focusing on planning, performance, and workforce morale.	Critical for post-VRS HR management and competitiveness.
	<b>Employee Morale</b>	Can improve or decline based on perceived job security and fairness.	Directly affects productivity and organizational health.
	<b>Employee Loyalty</b>	Influenced by job security and organizational trust post-VRS.	Analyzed as a key factor in survivor employee behavior.
	<b>Employee Stress</b>	Restructuring and job insecurity increase stress, affecting performance.	Impact on survivors linked to broader organizational outcomes.
	<b>Survivor Employees</b>	Remaining workforce faces new challenges, affecting morale and motivation.	Highlighted as a critical group for organizational success post-VRS.
<b>Analytical Tools to Assess Impact</b>	<b>Paired t-test</b>	Statistical method comparing pre- and post-VRS metrics for profitability and productivity.	Used to quantify VRS outcomes and validate assumptions.
	<b>Regression Analysis</b>	Explores relationships between HR policies, morale, and productivity.	Highlights interdependencies influencing post-VRS outcomes.
	<b>Factor Analysis</b>	Identifies key factors affecting employee psychology and operational performance.	Provides deeper insights into workforce behavior post-VRS.

This study investigates the challenges faced by Indian Public Sector Banks in adapting to a more competitive, cost-driven environment brought on by economic liberalization and globalization. Since their nationalization in 1969, these banks have played a central role in the Indian economy by funding industrial and agricultural growth, focusing on priority sectors, and implementing social objectives. However, the shift to a liberalized economy in 1991 brought new pressures, including increased competition and the need for greater cost efficiency and operational effectiveness.

The research problem centers on how Indian Public Sector Banks have responded to these pressures, particularly through the introduction of the Voluntary Retirement Scheme (VRS). VRS was implemented to reduce costs, rebalance workforce age and skills, and improve bank profitability. However, it remains unclear whether VRS has successfully achieved these goals or if there are unintended effects that may impact the competitiveness and efficiency of the banking sector.

This study will explore solutions by analyzing the effects of VRS on critical performance indicators, such as operational costs, profitability, and employee productivity, in both the pre- and post-VRS environments. Additionally, it will assess the role of strategic HR planning in enhancing the competitiveness of these banks within a liberalized economy. By examining existing HR policies and the responses of employees who opted for VRS as well as those who stayed, the study aims to provide a comprehensive evaluation of whether VRS has met its intended objectives and identify areas for improvement.

This research will contribute insights on optimizing workforce management and enhancing the competitiveness of public sector banks in India, providing solutions that may inform future HR strategies and policy reforms in the banking industry.

The current study deals with the issue of appraisal of VRS exercise adopted by banks during 2000-2001. The guideline provided by IBA and RBI for the implementation of VRS says that it shall result in improving the operational efficiency and profitability of the banks. Further, it says that the exercise shall result in improving human resource quality as well as composition. The Voluntary Retirement scheme objectives, eligibility, period, monetary and other benefits were more or less the same for all public sector banks. However respective bank boards of directors have incorporated a few changes relevant to their banks. The State Bank of Indore Voluntary Retirement Scheme (Annexure III) has been implemented with objectives as discussed above.

Any step taken by banks or the government shall also have a social responsibility of managing the psychology of affected citizens/employees. Each of the decisions taken by the government shall improve the institutional performance but also keep focus on the performance of remaining

**IV. RESEARCH GAPS**

employees in the long run, and provide satisfaction to customers. Keeping this in mind the researcher explored the psychological impacts of VRS on affected persons. It can be concluded that the problem researched is the appraisal of the VRS scheme implemented by public sector banks during 2000-2001 for operational efficiency, profitability, human resource management, development and psychological implications.

## V. RESULTS

### 1. Profitability Improvements

The analysis revealed that the Voluntary Retirement Scheme (VRS) contributed to improved profitability within the State Bank of Indore and other public sector banks. Key findings include:

- A notable reduction in **staff costs**, directly enhancing cost efficiency.
- A significant increase in **return on assets (ROA)** post-VRS, demonstrating better utilization of bank resources.

### 2. Productivity Enhancements

The study found a measurable improvement in productivity metrics:

**Business per Employee** and **Profit per Employee** both increased, indicating that the reduced workforce handled operational tasks more efficiently.

Enhanced workforce optimization was achieved as remaining employees adapted to higher workloads, leading to streamlined operations.

### 3. Impact on Human Resource Dynamics

**HR Management:** The scheme prompted significant restructuring of HR policies, with increased focus on workforce development and cost optimization.

**Retention and Development:** Investments in training and development per employee increased, aligning with the bank's strategic goals of retaining and upskilling the reduced workforce.

### 4. Psychological Impacts on Employees

**Survivor Employee Morale:** Mixed effects were observed, with some employees experiencing increased stress and insecurity, while others reported higher motivation due to expanded roles.

**Employee Loyalty:** Although the remaining workforce displayed resilience, the perceived job insecurity necessitated targeted interventions to sustain organizational trust.

### 5. Strategic Organizational Shifts

The scheme catalyzed changes in **organizational structure**, enhancing efficiency while also exposing gaps in managing employee morale and stress.

The bank's competitiveness improved as a result of cost efficiency, though challenges remained in aligning workforce morale with operational goals.

## VI. CONCLUSION AND FUTURE WORK

1. VRS	Achieved	Core	Objectives
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The study concludes that VRS effectively achieved its primary goals of enhancing cost efficiency and profitability, particularly by streamlining human resources and improving operational productivity.

### 2. Employee Adaptation and Challenges

While productivity and efficiency improved, the VRS created challenges in employee morale, loyalty, and stress management. These factors must be addressed to ensure sustainable organizational health.

### 3. Need for Strategic HR Policies

The findings highlight the importance of robust HR policies that not only focus on cost efficiency but also prioritize employee well-being and development.

### 4. Impact on Competitiveness

The scheme positioned the State Bank of Indore to compete more effectively in a liberalized and globalized economic environment, but sustained efforts in workforce engagement and morale-building are necessary for long-term success.

## Future Work

### 1. Longitudinal Studies on Post-VRS Performance

Future research should track the long-term effects of VRS on profitability, productivity, and employee well-being to understand its sustained impact.

### 2. Comparative Analysis Across Banks

Expanding the study to include other public sector banks can provide a broader understanding of VRS implementation strategies and their varying outcomes.

### 3. Psychological and Behavioral Research

Further exploration of psychological impacts on employees, including survivor stress and motivation, can inform better HR interventions.

### 4. Technology and Automation Impact

Investigate how automation and digitalization complement workforce optimization post-VRS to drive further efficiency and competitiveness.

### 5. Customer-Centric Outcomes

Assess how VRS impacts customer satisfaction and service quality, which are critical for maintaining competitiveness in a liberalized economy.

### 6. Policy Recommendations

Develop policy guidelines for implementing HR restructuring programs like VRS, emphasizing a balance between operational efficiency and employee welfare.

The comprehensive evaluation of VRS's impact on public sector banks, offering actionable insights for optimizing workforce management and achieving organizational excellence in a competitive economic landscape.

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