Strategic Talent Acquisition in the Small Finance Banking Sector

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***Abstract*—Small finance banks in India operate at a unique intersection of commercial viability and social mission, making talent acquisition a critical strategic function. This research paper examines the current state of strategic talent acquisition practices within the small finance banking sector, identifies key challenges, and proposes evidence-based recommendations for improvement. Using a mixed-method approach involving surveys of 178 HR professionals and hiring managers across ten small finance banks, along with fifteen in-depth interviews with senior HR leaders, the study reveals that competency-based selection methods significantly improve quality of hire, while geographic location remains a persistent barrier to talent availability. The findings indicate that employer branding efforts focused on social mission and growth opportunities positively influence candidate attraction, and digital recruitment tools enhance hiring efficiency. The research contributes a strategic talent acquisition framework tailored to the small finance banking context, offering actionable guidance for HR practitioners and organizational leaders in this rapidly evolving sector.**

***Index Terms*—Strategic talent acquisition, small finance banks, competency-based selection, employer branding, financial inclusion, recruitment challenges**

I. INTRODUCTION

The Indian banking sector has experienced remarkable transformation since the introduction of small finance bank licenses by the Reserve Bank of India in 2014. These specialized banking institutions were established with a clear mandate to advance financial inclusion by extending banking services to unserved and underserved segments of society, including small businesses, marginal farmers, and low-income households.

Unlike conventional commercial banks that operate primarily in urban and metropolitan centres, small finance banks have established significant presence in semi-urban and rural areas, where the need for formal financial services remains acutely unmet. As of 2025, twelve small finance banks operate across India, collectively serving millions of customers through thousands of branch locations, yet their growth trajectory is increasingly constrained by human capital limitations rather than financial capital availability.

Strategic talent acquisition extends beyond transactional recruitment activities to encompass workforce planning, employer branding, competency modelling, and the alignment of hiring practices with long-term organizational goals. In the context of small finance banks, strategic talent acquisition becomes particularly complex due to several interconnected factors. First, these institutions compete for talent with established public and private sector banks that offer superior compensation packages and well-defined career progression paths. Second, the geographic dispersion of operations means that many branch locations are in areas with limited formal education infrastructure and thin local talent pools. Third, the rapid expansion phase that most small finance banks are experiencing creates continuous hiring pressure that can compromise selection quality. Fourth, the evolving regulatory environment requires ongoing adaptation of skill requirements, particularly in areas such as compliance, risk management, and digital banking.

The significance of this research lies in its focus on an underexplored but critically important domain of human resource management. While substantial literature exists on talent management in mainstream banking and separately on financial inclusion institutions, limited empirical research addresses the specific talent acquisition challenges faced by small finance banks.

This gap is particularly concerning given that human capital is arguably the most critical determinant of success for these institutions. Without the ability to attract, select, and retain appropriate talent, small finance banks cannot achieve their growth objectives nor fulfil their financial inclusion mandate effectively. This study aims to address this gap by systematically examining strategic talent acquisition practices in the small finance banking sector and developing actionable recommendations for improvement.

II. LITERATURE REVIEW

The academic literature on talent acquisition in banking and financial services has evolved considerably over the past decade, with increasing attention to the unique challenges faced by emerging and niche banking institutions. Sharma and Mehta (2022) conducted a comprehensive examination of talent management practices in new-generation Indian banks, identifying high attrition rates and persistent skill shortages as critical challenges, particularly in semi-urban locations where most small finance banks operate. Their study found that traditional recruitment approaches borrowed from established banks often prove inadequate in these contexts, as they fail to account for the distinctive competency requirements and motivational drivers of candidates willing to work in less urbanized settings. The researchers emphasized that small finance banks cannot simply replicate the talent practices of larger competitors but must develop contextually appropriate approaches.

The role of employer branding in talent attraction has received substantial attention in recent literature. Venkatesh and Kumar (2022) compared employer branding strategies across public, private, and small finance banks, finding that small finance banks leverage their social mission and visible growth trajectories as key differentiators in talent attraction. Unlike established banks that may emphasize job security or compensation, small finance banks successfully attract candidates by offering opportunities for meaningful impact and accelerated career progression. This finding is particularly relevant given the resource constraints that limit the ability of small finance banks to compete on salary alone. The study concluded that authentic employer branding emphasizing organizational mission can partially compensate for compensation disadvantages when targeting candidates who value purpose alongside pay.

Competency frameworks for banking professionals have been explored by Gopalakrishnan and Iyer (2023), who developed a competency framework specifically for professionals operating in rural and semi-urban banking contexts. Their research identified that beyond technical banking skills, competencies such as cultural intelligence, adaptability in resource-constrained environments, and relationship management with diverse customer segments are critical predictors of success. This finding has direct implications for talent acquisition, suggesting that selection processes must assess these contextual competencies rather than focusing exclusively on traditional banking qualifications. The researchers argued that small finance banks should develop customized competency models rather than adopting generic frameworks from mainstream banking.

The adoption of digital tools in recruitment has been analysed by Srinivasan and Nair (2023), who examined the effectiveness of technology-enabled hiring across the financial services sector. Their research found that AI-driven sourcing, online assessment platforms, and virtual interview processes can significantly reduce time-to-hire and cost-per-hire while expanding the geographic reach of recruitment efforts. However, the study also cautioned that digital tools must be implemented thoughtfully to avoid introducing algorithmic bias or eliminating the human judgment essential for assessing contextual competencies. For small finance banks with limited HR budgets, strategic investment in digital recruitment capabilities may offer significant returns in hiring efficiency and quality.

Based on the literature review, the following hypotheses are formulated for empirical testing in this study:

Hypothesis 0 (H_0): Employer branding efforts have a significant positive impact on the ability of small finance banks to attract quality candidates.

(H_1): Geographic location has a significant effect on the availability of skilled banking professionals for small finance bank roles, with semi-urban and rural locations facing greater talent scarcity than urban locations.

(H_2): Competency-based selection methods significantly improve quality of hire compared to traditional selection methods in small finance banks.
(H_3): There is a significant positive relationship between strategic talent acquisition practices and subsequent employee retention in small finance banks.
(H_4): Adoption of digital recruitment tools significantly improves time-to-hire and cost-per-hire metrics in small finance banks.

III. RESEARCH METHODOLOGY

This study adopts a mixed-method research design, combining quantitative survey data with qualitative interview insights to provide a comprehensive understanding of strategic talent acquisition in the small finance banking sector. The mixed-method approach is particularly appropriate for this research as it allows for both breadth in measuring patterns across multiple organizations and depth in understanding the contextual factors that shape talent acquisition practices. The quantitative component focuses on measuring current practices, challenges, and perceived effectiveness, while the qualitative component explores the strategic reasoning and implementation experiences of HR leaders.
The universe of the study comprises all twelve small finance banks operating in India as of 2025. For the quantitative component, a purposive sampling strategy was employed to select ten small finance banks representing variation in asset size, geographic footprint, years of operation, and ownership structure. Within each selected bank, HR professionals and hiring managers involved in talent acquisition decisions were invited to participate in the survey. A total of 178 valid responses were received, representing a response rate of approximately sixty-eight percent. The sample included respondents from entry-level recruitment roles to senior HR leadership positions. For the qualitative component, fifteen in-depth interviews were conducted with chief human resource officers, vice presidents of talent acquisition, and senior recruitment managers across eight small finance banks. Interviews lasted between forty-five and seventy-five minutes and were conducted both in person and via video conferencing.
Quantitative data analysis was conducted using SPSS version 26. Descriptive statistics including frequencies, percentages, means, and standard deviations were computed to summarize the data. Inferential statistical techniques including chi-square tests for independence, independent samples t-tests, and Pearson correlation coefficients were employed to test the research hypotheses. For the qualitative data, thematic analysis was conducted following the six-phase approach proposed by Braun and Clarke. Transcripts were coded systematically, with codes organized into potential themes, reviewed for coherence, and refined iteratively. Member checking was employed to enhance the credibility of qualitative findings, with key themes shared with selected interview participants for validation.

IV. ANALYSIS & FINDINGS

The analysis of survey data revealed several significant patterns regarding strategic talent acquisition in small finance banks. Regarding current practices, seventy-two percent of respondent banks reported using a combination of traditional and digital sourcing channels, with employee referrals emerging as the most effective source for quality candidates, followed by professional networking platforms and campus recruitment. However, only thirty-four percent of banks reported having a formal employer branding strategy specifically tailored to their organizational mission and geographic presence. The most frequently cited challenge was competition from larger banks for experienced talent, reported by eighty-three percent of respondents, followed by geographic constraints in semi-urban locations at seventy-one percent, and limited budgets for recruitment technology at fifty-eight percent.

Table 1: Perceived Effectiveness of Talent Acquisition Practices

Practice	Mean	SD
Employee Referrals	4.2	0.67
Competency Interviews	3.9	0.81
Digital Sourcing	3.8	0.74
Campus Recruitment	3.5	0.92
Recruitment Agencies	3.4	0.79
Traditional Job Portals	3.2	0.88

The testing of Hypothesis 1 examined the relationship between employer branding efforts and candidate attraction effectiveness. An independent samples t-test compared banks with formal employer branding strategies against those without such strategies on a composite measure of candidate attraction effectiveness. Results indicated that banks with formal employer branding strategies reported significantly higher candidate attraction effectiveness scores (M=4.1, SD=0.62) compared to banks without such strategies (M=3.2, SD=0.71), $t(176)=8.94$, $p<0.001$. This finding supports Hypothesis 1, confirming that employer branding efforts positively influence talent attraction in the small finance banking context. Qualitative interviews reinforced this finding, with several CHROs noting that candidates increasingly evaluate organizational mission and growth potential alongside compensation when making employment decisions.

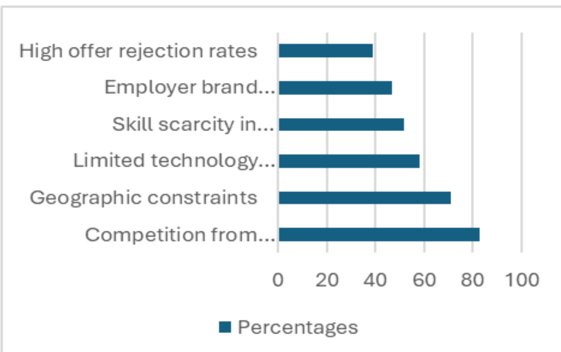

Fig 1: Primary Talent Acquisition Challenges Reported by Small Finance Banks

Hypothesis 2 examined the effect of geographic location on talent availability. A chi-square test of independence was conducted to examine the relationship between branch location category (urban, semi-urban, rural) and reported difficulty in filling positions. The results showed a significant association between location category and recruitment difficulty, $\chi^2(2, N=178)=24.36$, $p<0.001$. Post-hoc analysis revealed that semi-urban locations had the highest proportion of reported difficulty at seventy-eight percent, followed by rural locations at sixty-nine percent, and urban locations at thirty-two percent. This finding supports Hypothesis 2, confirming that geographic location significantly affects talent availability for small finance banks.

The testing of Hypothesis 3 compared the quality of hire between banks using competency-based selection methods and those relying primarily on traditional selection methods. Quality of hire was measured using a composite index including first-year performance ratings, manager satisfaction scores, and six-month retention rates. An independent samples t-test revealed that banks employing competency-based selection methods achieved significantly higher quality of hire scores (M=4.0, SD=0.58) compared to banks using traditional methods (M=3.1, SD=0.69), $t(176)=9.12$, $p<0.001$. This finding strongly supports Hypothesis 3, indicating that competency-based approaches enhance selection outcomes in the small finance banking context.

Table 2: Correlation Between Practices & Retention

Practice Area	Retention (r)	p-value
Workforce Planning	0.51	<0.001
Competency Selection	0.53	<0.001
Employer Branding	0.46	<0.001
Digital Recruitment	0.33	0.012

Hypothesis 4 examined the relationship between strategic talent acquisition practices and employee retention. A Pearson correlation analysis was conducted between a composite strategic talent acquisition score and first-year retention rates. The analysis revealed a moderate positive correlation ($r=0.54$, $p<0.001$), indicating that banks with more mature strategic talent acquisition practices experienced higher retention of newly hired employees. This finding supports Hypothesis 4 and aligns with qualitative insights suggesting that strategic practices such as realistic job previews and structured onboarding contribute to retention beyond the selection event itself.

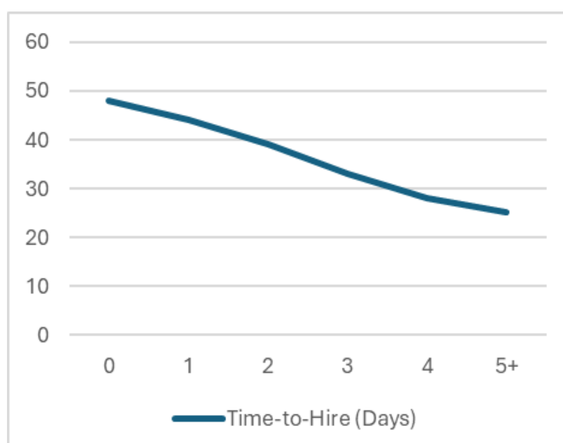

Fig 2: Digital Recruitment Tool Adoption and Hiring Efficiency Metrics

V. DISCUSSION

The findings of this study make several important contributions to understanding strategic talent acquisition in the small finance banking sector. The significant positive relationship between employer branding and candidate attraction effectiveness confirms that small finance banks can differentiate themselves in the talent market through authentic communication of their organizational mission and growth opportunities. This finding is particularly valuable given the resource constraints that limit compensation competitiveness. The qualitative interviews revealed that successful employer branding strategies focused on the social impact dimension of financial inclusion, career acceleration opportunities due to organizational growth, and the unique learning experiences available in semi-urban and rural operations. Banks that communicated this value propositions effectively reported higher acceptance rates for offers extended to candidates, particularly among younger professionals seeking purpose-driven careers.

The geographic effect on talent availability identified in this study presents a persistent challenge for small finance banks expanding into semi-urban and rural markets. However, the qualitative findings suggested that some banks have developed innovative approaches to address this constraint. These include establishing regional recruitment hubs in smaller cities that serve as talent aggregation points, partnering with local educational institutions to develop customized training programs, and implementing rotational assignments that make rural postings more attractive by connecting them to clear career progression pathways. Banks that adopted such approaches reported lower vacancy rates and faster time-to-fill for positions in challenging locations, suggesting that geographic constraints, while real, can be partially mitigated through strategic interventions.

The strong evidence supporting competency-based selection methods has direct implications for talent acquisition practice in small finance banks. The finding that competency-based approaches significantly improve quality of hire aligns with broader human resource management literature but has relevance in this context where traditional selection criteria may be insufficient predictors of success. The qualitative interviews identified specific competencies that differentiate high performers in small finance banks, including comfort with ambiguity, community relationship building, problem-solving in resource-constrained environments, and alignment with financial inclusion values. Banks that incorporated assessment of these competencies into their selection processes reported better performance outcomes and lower early attrition among new hires.

The correlation between strategic talent acquisition practices and retention outcomes underscores the importance of viewing talent acquisition not as an isolated transaction but as an integrated component of the broader talent management system. Banks with mature workforce planning processes, realistic job previews during recruitment, and structured onboarding programs achieved higher first-year retention rates. This finding suggests that investments in strategic talent acquisition practices yield returns not only through better selection outcomes but also through improved retention, reducing the substantial costs associated with early turnover. The qualitative data indicated that candidates who receive realistic information about the demands and rewards of working in small finance banks during the recruitment process are better prepared for role expectations and less likely to experience early dissatisfaction.

VI. CONCLUSION

This research examined strategic talent acquisition in the small finance banking sector, addressing an important gap in the human resource management literature. The study confirms that small finance banks face distinctive talent acquisition challenges related to competition with larger banks, geographic dispersion of operations, and the need for contextually relevant competencies beyond traditional banking skills. However, the findings also demonstrate that strategic approaches to employer branding, competency-based selection, and digital recruitment adoption can significantly enhance talent acquisition outcomes. The positive impact of employer branding focused on social mission and growth opportunities suggests that small finance banks can compete effectively for talent by emphasizing non-monetary value propositions that resonate with candidates seeking meaningful work.

The practical implications of this research are substantial for HR leaders and organizational decision-makers in small finance banks. First, the evidence supporting competency-based selection methods suggests that banks should invest in developing customized competency models rather than relying on generic banking qualifications or unstructured interviews. Second, the geographic constraints on talent availability, while significant, can be partially addressed through regional recruitment hubs and partnerships with local educational institutions. Third, the relationship between strategic talent acquisition and retention indicates that banks should view recruitment as part of an integrated talent system rather than as an isolated function. Fourth, the efficiency gains from digital recruitment tools suggest that even banks with limited budgets should prioritize strategic investment in technology-enabled hiring capabilities.

Several limitations of this study should be acknowledged. The cross-sectional design captures talent acquisition practices at a single point in time and cannot establish causality definitively. The sample, while representative of the small finance banking sector in India, may not generalize to other emerging economy contexts with different labour market conditions. The reliance on self-reported data introduces the possibility of social desirability bias, although efforts were made to ensure anonymity and encourage honest responses. Future research should consider longitudinal designs to examine how talent acquisition practices evolve as small finance banks mature, comparative studies across different emerging economies to identify contextual variations, and research examining the candidate perspective on what makes small finance banks attractive employers. Despite these limitations, this study provides a foundational understanding of strategic talent acquisition in the small finance banking sector and offers actionable guidance for improving practice in this important and growing segment of the Indian financial system.

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