

## Performance Appraisal System in Indian Banks

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### Abstract

*Performance appraisal is one of the major bundles in Human Resource Management. Successful performance appraisal system is one that has resulted from hard work, careful thinking, planning and integrated with the strategy and needs of the organization. The concept of performance appraisal is still emerging and finding space in both academic and practitioner spheres. This paper is an attempt to do the empirical evaluation of performance appraisal by applying some of the strands of critical thinking to performance appraisal practices and discourses. Banking sector is a fast growing sector of India. With swift expansion in the number of branches and the new functions assigned to them, banks are beginning to feel a new pressure on their organizational abilities the processes of recruitment, placement, training, promotion and appraisal, in order to ensure that the right number of staff with the right capacities are available at the right time and for the right places. Appraisal is one of the key factors of organizational ability which is also the focus of this study. In simple words we can say that performance appraisal is an analysis of employee's recent successes and failures, personal strengths and weaknesses, and suitability for promotion or further training.*

**Keywords:** Performance Appraisal, Banking Sectors, Employees feedback

### Statement of Problem

Globalization, privatization, free trade and liberalization are increasing the competition to the business organization. A key challenge confronting organizations is to continue to achieve sustained competitive advantage in the short term and also to prepare for long-term success. HR are more important in the service organizations than in goods producing industry, as their cost of labour is relatively a high proportion of the total cost of production. Moreover, employees on the front line in the service sector are in contact with the customer, and the customer satisfaction depends upon employee performance. Banking, in the service industry, delivers its service across the counter to the ultimate customer. The activities of banking industry are all about "relationship". Hence, banking industry has to provide better services with a smile to the customers in order to cultivate and maintain long lasting relationship with their customers. Notwithstanding the level of technology, banking is primarily a labour intensive service sector. Hence it will not be possible for the banks to sustain effectiveness unless human resource management is given prime importance because the technology is only an aid to human effort and not a substitution thereof. If the technology is the equalizer, then the human capital shall be the differential in future.

The Human Resources are the most important element for the progress of banking. Though technology can replace manual intervention, the thinking process is the exclusive preserve of human beings. With changing times and technology, banks would require employees with special skills in the areas of risk management, treasury, product development, customer relationship management and IT services. The technology can improve speed and quality of performance, but at the same time it can also unleash the risk factor. It is rightly said: "We are trying to apply third generation ideas on second generation organizations which are unfortunately run by first generation managers". It is a recognized fact that HR occupies a unique and sensitive position in the banking sector; no meaningful change is possible without the involvement of their employees. Therefore, if banks have to undertake any significant changes to adapt themselves to new competitive environment, one of the most crucial initiatives lie in organizing and preparing its HR to the requirement of competitive banking. Human asset being an intellectual asset, the new source of competitive advantage can be defined as the sum total of knowledge, skills and competencies that an organization possesses. The fundamental principle of human resource management is to treat people as a valuable asset. Good HRM is to attract the best talent, retain and motivate them (Sangwan, 2005). The primary source of competitive edge, in addition to access to finance or capital, rests with

the organization, and with the people. People are the most important and valuable resources of any organization. Dynamic people can build dynamic and growth oriented organizations. Effective employees can contribute to the effectiveness of the organization. Competent and motivated people can make things happen and enable an organization to achieve its goals. In this respect organizations should continuously ensure that the dynamism, effectiveness, competency and motivation of its people should remain at a high level.

### Performance Appraisal Systems in Indian Banks

The performance of the banks (as any other service sector organization) highly depends on their HR. Hence, efficient and effective HR practices of selecting the right people, who would maximize value and minimize cost within the organization (Nanayakkara, 1999), remains a challenging task. The core function of HRD in the banking industry is to facilitate performance improvement, measured not only in terms of financial indicators of operational efficiency but also in terms of the quality of financial services provided. Factors like skills, attitudes and knowledge of the human capital play a crucial role in determining the competitiveness of the financial sector. The quality of HR indicates the ability of banks to deliver value to customers. Capital and technology are replicable but not the human capital, which needs to be valued as a highly valuable resource for achieving that competitive edge. The primary emphasis needs to be on integrating human resource management strategies with the business strategy. HRM strategies include managing change, creating commitment, achieving flexibility and improving teamwork. The other processes representing the overt aspects of HRM, viz. recruitment, placement, performance management, are complementary (Vepa Kamesam, 2004).

Only one asset holds the power to differentiate banks in the competitive environment i.e. a dedicated, productive and innovative workforce. No longer can an organization afford to underestimate and demoralize their workforce to succeed at the expense of those who help and make success possible. Respect human dignity and have faith in every employee as resource and potential asset while achieving organizational objectives efficiently. In short, banks have to invest in their work force. Banking services is one sector where a great degree of attention is being paid to Performance Appraisal Systems. Several of the public sector banks (PSBs) have changed their PAS or are in the process of changing them. State Bank of India has recently adopted an open system of appraisal. Its associate banks are likely to follow the same after detailed experiences of State Bank of India are available. Several banks also have self-appraisal as a part of performance appraisal, although mostly such self-appraisal is more of communication of achievements.

Looking into this, Allahabad Bank has introduced a system that aims in helping officers to identify their strengths and weaknesses and encourage improvement of performance on the job. Indian Overseas Bank has a system in which a branch manager gives a self-appraisal on business growth, customer service, internal administration and training requirements in great detail.

Punjab National Bank has, primarily, a development-oriented appraisal form. There are ten different formats available for ten different categories of employees. The bank started the system with a self-appraisal by the appraisee. Studies of the operating system of the successful organizations, in general, reveal that a good PAS is the corner stone to navigate an organization successfully in this globalize environment of uncertainty and continuous change. They have, therefore, developed and employed such system and harnessing maximum benefits. But, like many fields of organizational development, the PSBs are lagging behind in this area too. Most of the PSBs have an Annual Appraisal System that is historic in nature and documents the past activities. It is a onetime annual affair only. Study of the format of annual appraisal of many of the PSB reveal that they are basically uniform in character with emphasis in historical events and little or no importance for future growth. In comparison with the new generation banks and progressive organizations, the appraisal system in PSBs, thus, is basically dysfunctional. The PAS, as an important component of Performance Management System, is yet to be conceived and made operational. But developing and implementing a PAS seems overdue and vitally important

- ❖ Eichel and Bender (1984) stated that performance appraisal can also be called as the Achilles heel of management. Although leaders of many public organizations strive to be employee focused or employee centered, a lack of emphasis is given to a process intended to assist the employee in achieving both personal and organizational goals
- ❖ Cascio (1998) defined performance appraisal as a process to improve employee's work performance by helping them realize and use their full potential in carrying out the organization's missions and to provide information to employees and managers for use in making work related decisions. He goes on to define effective performance appraisal system as an exercise in observation and judgment, a feedback process and an organizational intervention. It is a measurement process as well as an intensely emotional process. Above all, Cascio stated, it is an inexact, human process that is utilized differently in almost every organization regardless of industry.
- ❖ Dr. Shambhu Nath Chowdhury (2004), banking services is one sector where a great degree of attention is being paid to Performance Appraisal Systems. Several of the public sector banks (PSBs) have changed their PAS or are in the process of changing them.

- ❖ Y. Zhang (2004) suggested that in Chinese state-owned banking industry, employees' perception of justice has a positive relationship to their overall satisfaction with both the performance appraisal process and its outcomes. However, statistically significant differences were found in relation to whether employees had received training in performance appraisal or not.

### Objectives of the study

1. To study the performance appraisal practices in PNB and SBI banks.
2. To understand the role of performance appraisal as one of the key factors for enhancing organizational ability in both banks under study.

### Methodology

#### Sample and data collection

The researcher could enlist cooperation for data collection from two public sector banks. The study targeted 380 responses from the PNB and SBI public sector banks. 190 questionnaires were distributed for each of the bank. In this study four provinces state of Haryana. As it was agreed to keep the names of the participating banks confidential. The details of sample design are as under.

#### Techniques of Data Analysis

Selected parameters were used to analyze the application of training and development program of PNB and SBI banks of state of Haryana. All data was processed through computer based Package for Excel. Before feeding the data into computer, all data were converted into numerical codes and the details of these coding are recorded in a code book. For conducting this descriptive study, some statistical tools like such as frequency distribution, reliability test and regression analysis were carried out.

#### Sample Design

Stratified random sampling technique was used to collect data from the respondents. To collect response from the employees, the PNB and SBI banks of state of Haryana was considered as per convenience of the study.

#### Collection of Data

Both primary and secondary have been used in this study. The primary data have been collected through personal interview by using a structured questionnaire on 380 bank employees from some selected the PNB and SBI banks of state of Haryana. Secondary data was collected directly by the researcher from different secondary

sources like annual reports of selected banks, related books, journals, articles, seminar paper, publications from national and international research institutions, report of different financial institutions, public records and statistics, different research reports etc.

The details are as under:

**Table1:** Selection of SBI & PNB Respondents From Haryana State

S no.	Regions	SBI		PNB	
		Respondent	%age	Respondent	%age
1.	Rohtak	51	26.84	47	24.73
2.	Kurukshetra	21	11.05	34	17.89
3.	Karnal	39	20.53	38	20.00
4.	Hisar	51	26.84	42	22.10
5.	Chandigarh	28	14.74	29	15.28

**Table2:** Distribution of SBI & PNB Respondent According on the basis of the work experience

S no.	Category of Managers	SBI		PNB	
		Respondent	%age	Respondent	%age
1.	High Experienced	62	32.63	64	33.68
2.	Middle Experienced	65	34.21	76	40.00
3.	Lower Experienced	63	33.16	50	26.32
	<b>Total</b>	<b>190</b>	<b>100%</b>	<b>190</b>	<b>100%</b>

Source: Primary Data Analysis

**Table 3:** Distribution of SBI & PNB Respondent Regarding Qualification

S no.	Category of Managers	SBI		PNB	
		Respondent	%age	Respondent	%age
1.	Just Academic	60	33.58	52	27.36
2.	CAIIB Professional	70	36.84	81	42.64
3.	Other Professional	60	31.58	57	30.00
	<b>Total</b>	<b>190</b>	<b>100%</b>	<b>190</b>	<b>100%</b>

Source: Primary Data Analysis

This study focuses on the performance appraisal. By keeping in mind the research objectives of the study, the survey method has been chosen to collect the data. The data were collected by the use of a structured questionnaire. This instrument consists of sixth dimensions such as self-review, identification of development needs, developing mutual understanding and trust, facility communications, performance – review and follow on action.. It was designed to test employee's perceptions about performance appraisal system.

#### Employee's perceptions about performance appraisal

The present study consists of twenty three items related to performance appraisal, which are grouped according to the individual variables (self-review-03, identification of

development needs 04, developing mutual understanding and trust 04, facility communications 04, and performance – review 04 and follow on action 04). The responses were noted in five-point scale from 1 for “strongly disagree” to 5 for “strongly agree”. The construct validity of the dimensions was established by Confirmatory Factor Analysis (CFA). The reliability of the dimensions was ascertained by findings of the internal consistency of the measures by using the Cronbach’s coefficient alpha.

**Table 4:** Reliability Analysis of Data

Cronbach's Alpha	N of Items
.820	23

From table-1 we see that the Cronach’s alpha value ( $\alpha$ ) was found 0.820, which was higher than the minimum acceptable level 0.70 suggested by Nunnally (1978). Thus, the data has found reliable for the study.

## Result and Discussion

To establish whether performance appraisal and its dimensions differ significantly between PNB and SBI, t-test for equality of means (independent sample) was applied. Means, Standard deviation and t- value were computed for performance appraisal and its dimensions in order to test the hypotheses. The result in this regard is presented in Table1.

**Table5:** T-test for performance appraisal PNB and SBI

Variables	PNB N=190		SBI N=190		t- Value
	Mean	SD	Mean	SD	
Self-review	3.71	.61	3.45	.68	5.31**
Identification of development needs	3.86	.57	3.51	.58	8.01**
Developing mutual understanding and trust	3.49	.75	3.63	.63	-2.52*
Facility communications	3.64	.69	3.48	.66	3.18**
Performance – review	3.36	.53	3.31	.48	1.40
Follow on action	3.61	.45	3.47	.43	4.10**
<b>Performance Appraisal System</b>	3.61	0.60	3.48	0.58	3.18*

\*P<0.05, \*\*P<0.01

## Performance Appraisal System

Table 1 shows that performance appraisal (mean=3.61) for PNB is found to be more than their counterparts in SBI (mean=3.48). The “t” value also suggests that such mean variation is statistically significant. This indicates that the PNBs give more attention towards performance appraisal than SBI do.

**Table 6:** Multiple Correlation and Destructive statics of Performance Appraisal System

	Mean	Std. Dev	Self-review	Self-review identification of development needs	Developing mutual understanding and trust	Facility communications	Performance – review	Follow on action
Self-Review	3.190	1.235	1	.156* .049	-.044 .584	.108 .174	-.38** 0.000	-.25** .002
Identification Of Development Needs	2.996	1.062		1	.24** .002	.358** .000	.097 .223	.162* .041
Developing Mutual Understanding And Trust	3.479	.8804			1	.304** .000	.103 .196	.239** .002
Facility Communications	2.981	1.055				1	-.06 .451	.052 .516
Performance – Review	4.259	1.050					1	.714** .000
Follow On Action	4.001	.8910						1

Notes  
\*. Correlation is significant at the 0.05 level (2-tailed)  
\*\*. Correlation is significant at the 0.01 level (2-tailed)

Regression Analysis was carried out to determine the relationship between performance appraisal System and employees’ performance. A null hypothesis has been taken here: Ho: There is a no relationship between performance appraisal and employees’ performance.

**Table 2:** Model Summary of Regression Analysis of PNB and SBI Banks Respondents

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.827	.849	.836	.29369

Source: Primary Data Analysis

- ❖ Predictors: (Constant), You think further performance appraisal is g on the performance of the employees.

**Table 3** ANOVA Analysis of Performance appraisal of PNB and SBI Banks Respondents

Model	Sum of Squares	df	Mean Square	F	Sig.
1Regression Residual Total	36.638	4	65910	68.517	.000
1Regression Residual Total	3.882	376	.086		
1Regression Residual Total	39.520	380			

Source: Primary Data Analysis

- ❖ Predictors: (Constant), You think further self-review, identification of development needs, developing mutual understanding and trust, facility communications, performance – review and follow on action.

Dependent Variable: From performance appraisal of employees and organizations will be benefitted. From the ANOVA output it was found that the significance value has come 0.000 which is less than p value (0.05) at 5% level of significance. For this, null hypothesis has been rejected and it has proved that there exists a significance relationship between Training and development program and employees' performance in both banks.

**Table: 4** Coefficients Analysis of PNB and SBI Banks Respondent

Model	Unstandardized Coefficients		Standardize Coefficients	t	Sig.
Model	B	Std. Error	Beta	t	Sig.
(Constant)	.090	.094	.756	.856	.304
1 Self-review	1.005	.318	.956	2.164	.001
2 Identification of development needs	-.031	.076	-.035	-.513	.582
3 Developing mutual understanding and trust	-.033	.102	-.035	-.424	.448
4 Facility communications	.029	.300	.027	.092	.724
5 Performance – review	.090	.094	.843	.856	.304
6 Follow on action	1.005	.318	.956	2.164	.001

Tables 2, 3 and 4 represent the regression analysis. The analysis shows that the R-Square value is 0.849. It indicates that a good proportion of variation (84.9%) exists between the dependent variable is explained by the total variation of the 6 independent variables. From all the independent variables significant values of only one variable, like – performance appraisal significant value are less than the P value 0.05. It indicates that “performance appraisal” has a significant impact on the bank employees. Respondents' demographic profile also has

been summarized in this study through descriptive statistics

In SBI performers and non-performers are considered on par. This needs to be rectified so that the meritorious are given their due. The employee appraisal system should be of 360-degree rating system i.e. an employee to be watched or rated by all who have interacted with him during the review period. Performance appraisal based on quality of output, potential of the employee within the organization etc. need to be incorporated across all grade, cadres and levels. This will not only ensure maximizing productivity, but also go a long way in motivating star performers aligning with the long-term mission and vision of banks.

During effective Performance appraisal in banking sectors following steps should kept in the mind:

- ❖ Select what performance data to collect
- ❖ Determine who conducts the appraisal
- ❖ Decide on a rating philosophy
- ❖ Overcome rating deficiencies
- ❖ Create a rating instrument
- ❖ Deliver useful information to employee

The “Performance Appraisal” or review is essentially an opportunity for the individual and those concerned with their performance in the bank, most usually their line manager - to get together to engage in a dialogue about the individual's performance, development and the support required from the manager. It should not be a top down process or an opportunity for one person to ask questions and the other to reply. It should be a free flowing conversation in which a range of views are exchanged

Both the banks should improve their performance appraisal system for this purpose, both should introduce six Sigma methods to make a qualitative service and earn more profits. Mainly this Bing do appraisal work for administrative purposes i.e. film promotion and pay rise. To check the performing on self-review, identification of development needs, developing mutual understanding and trust, performance review and follow-up action, 360° feedback method should be applied and after this for management appraisal, gaming simulation method should be adopted, On experience and educational best appraisal, case studies okay's discussions and role-playing method may be used. Respective methods will identify the need an area for further action which are to needed i.e. promotions and transfer policies, training needs, proper placement, relationship building need and potentiality of other work etc.

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