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Performance Appraisal Practices in Indian Banking Sector: An Overview

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Abstract

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 i.e. 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, organizational, feedback

Introduction

Performance Appraisal is a process of Systematically evaluating performance and providing feedback upon which performance adjustments can be made (Schermer Born, Hunt and Osburn, 2004); Performance appraisal is concerned with formally assessing someone's work accomplishments and providing feedback. Performance can be defined in terms of

- Attitudes and traits (e.g. loyal, Dependable, Decisive etc.)
- Achievement of goals and outcomes
- Behaviours.

Performance appraisal may be defined as evaluating individual job performance as a basis for making objective personnel decisions (Robert Kreither, 2004). Performance appraisal is a process of assessing, summarizing and developing the work performance of staff in an organization. Good performance appraisals benefit both employees and the organization. It promotes common understanding of individual needs, work objectives and standards of acceptable performance. It also gives employees and managers a useful tool to aid in employee development. One human resource objective for using performance appraisal systems is to determine who should be promoted, demoted, transferred, or terminated. However, these are not only human resource functions that are related to performance appraisals. For example, an organization may use the results from a performance appraisal system to determine who needs formal training and development opportunities. Further, such opportunities may have no use as reward for individuals whose appraisals were positive.

Performance appraisal also can be used to motivate and improve performance. By showing an individual strength lie and pirating out areas that still need improvement, an evaluator can help focus an employee's attention on a course that will produce the most positive benefits additionally reinforcing behaviours that have produced strong positive results should motivate the individual to continue to performing this manner.

A well-designed performance appraisal system also can encourage individuals to work together as a team. If this is an organization's goal, it must face several challenges in designing and implementing such a system. Obviously, using the supervisor in the evaluation process, self-managed group members can evaluate each other. Because self-managed teams require a unique approach to performance appraisal, the process may need to be redesigned.

About the banking sector of India

The Banking sector in India has always been one of the most preferred avenues of employment. In the current decade, this has emerged as a resurgent sector in the Indian economy.

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As per the McKinsey report 'India Banking 2010', the banking sector index has grown at a compounded annual rate of over 51 per cent since the year 2001, as compared to a 27 per cent growth in the market index during the same period. It is projected that the sector has the potential to account for over 7.7 per cent of GDP with over Rs.7, 500 billion in market cap, and to provide over 1.5 million jobs.

Banking in India originated in the last decades of the 18th century. The oldest bank in existence in India is the State Bank of India, a government-owned bank that traces its origins back to June 1806 and that is the largest commercial bank in the country. Central banking is the responsibility of the Reserve Bank of India, which in 1935 formally took over these responsibilities from the then Imperial Bank of India, relegating it to commercial banking functions. After India's independence in 1947, the Reserve Bank was nationalized and given broader powers. In 1969 the government nationalized the 14 largest commercial banks; the government nationalized the six next largest in 1980.

Currently, India has 96 scheduled commercial banks (SCBs) - 27 public sector banks (that is with the Government of India holding a stake), 31 private banks (these do not have government stake; they may be publicly listed and traded on stock exchanges) and 38 foreign banks. They have a combined network of over 53,000 branches and 17,000 ATMs. According to a report by ICRA Limited, a rating agency, the public sector banks hold over 75 percent of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively.

Today, banks have diversified their activities and are getting into new products and services that include opportunities in credit cards, consumer finance, wealth management, life and general insurance, investment banking, mutual funds, pension fund regulation, stock broking services, custodian services, private equity, etc. Further, most of the leading Indian banks are going global, setting up offices in foreign countries, by themselves or through their subsidiaries.

Economy of a country can grow only when it has a sound and effective banking system. Therefore, banking system of India should not only be hassle free but it should be able to meet new challenges posed by technology and any other external or internal factor. Now banking services are no longer confined to metropolitans or cosmopolitans only. In fact, Indian Banking sector has reached even to remote corners of the country. People are the most valued asset of the organization, be it private or public, human resources are endowed with such uncommon qualities such as creativity, problem solving ability and they can be motivated as a team. There is a need of only managing them, appraising them and motivating them. This can be done only by appraising their performance from time to time.

Literature review

The objective of this literature review is to establish the basis for this research. Performance appraisal is one of the most widely used methods for measuring the value of employee performance. The success of performance appraisal depends on how effectively it is implemented. It also depends on how well the employees have understood the performance appraisal system and how positively they are oriented towards their system.

Eichel and Bender (1984) [3]. 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) [2]. 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 (2008) [8], 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 (2009) [10]. 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.

Ekta Bhatia (2010) [11]. 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.

A. Shrivastava and P. Purang (2011) [9]. studied the differences between public and private sector banks with respect to perception of fairness of the performance appraisal system and performance appraisal satisfaction. Perception of fairness of the performance appraisal system has been studied through nine factors. The study used independent samples t-test and qualitative analysis to study the mean differences between the two banks. Results indicated that private sector bank employees perceive greater fairness and satisfaction with their performance appraisal system as compared to public sector bank employees

Objectives of the study

1. To study the performance appraisal practices in different Indian banks.
2. To understand the role of performance appraisal as one of the key factors for enhancing organizational ability.

Research methodology

In depth literature review and available secondary data from various sources has been used to develop this paper.

"Performance appraisal" In banking sector

"Performance Appraisal" is a vehicle to (1) validate and refine organizational actions (e.g. selection, training); and (2) provide feedback to employees with an eye on improving future performance.

Validating and refining organizational action or banks action

Employee selection, training and just about any cultural or management practice-such as the introduction of a new pruning method or an incentive pay program-may be evaluated in part by obtaining worker performance data.

The evaluation or appraisal may provide ideas for refining established practices or instituting new ones. For instance, appraisal data may show that a firm supervisor has had a number of interpersonal conflicts with other managers and employees. Some options include

- 1) Paying more attention to interpersonal skills when selecting new supervisors, or
- 2) Encouraging present supervisors to attend communication or conflict management classes at the local community college, or
- 3) Providing the supervisor one-on-one counseling, or
- 4) Plan for long-term staffing and worker development, or
- 5) Give pay raises or other rewards, or
- 6) Set up an employee counseling session, or
- 7) Institute discipline or discharge procedures.

For validation purposes, it is easier to evaluate performance data when large numbers of workers are involved such as in banks. Useful performance data may still be collected when employees are evaluated singly, but it may take years to obtain significant data trends.

Employee need for feedback

Although employees vary in their desire for improvement, generally workers want to know how well they are performing. People need positive feedback and validation on a regular basis. Once an employee has been selected, few management actions can have as positive an effect on worker performance as encouraging affirmation. These are, in effect, good-will deposits, without which withdrawals cannot be made. This does not mean you should gloss over areas needing improvement. When presented in a constructive fashion, workers will often be grateful for information on how to improve shortcomings. Such constructive feedback, however, "can happen only within the context of listening to and caring about the person." In general, supervisors who tend to look for worker's positive behaviours-and do so in a sincere, non-manipulative way-will have less difficulty giving constructive feedback or suggestions. Furthermore, in the negotiated approach, the burden for performance analysis does not fall on the supervisor alone, but requires introspection on the part of the individual being evaluated.

Feedback may be qualitative or quantitative. Qualitative comments are descriptive, such as telling the shop mechanic you appreciate the timeliness and quality of his/her repairs. In contrast, quantitative feedback is based on numerical figures, such as the percentage of plant grafts that have taken. Some researchers feel feedback is particularly useful when workers have an achievement objective. By focusing the attention on performance, performance appraisal goes to the heart of personnel management and reflects the management's interest in the progress of the employees.

Performance appraisal systems in Indian Banks

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. Union Bank of India has an appraisal system in which the reporting officer is required to assess each of his appraisee officers on technical skills, human skills and conceptual skills. All these are defined for different categories of roles and the assessment has to be made on a five-point scale. Corporation Bank, UCO Bank, Central Bank of India, Dena Bank and Bank of Baroda has introduced similar self-appraisal formats. 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 PSBs 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.

Followings should keep in the mind for effective "performance appraisal" in a bank

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

1. Select what performance data to collect
2. Determine who conducts the appraisal
3. Decide on a rating philosophy
4. Overcome rating deficiencies
5. Create a rating instrument
6. Deliver useful information to employees

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.

Conclusion

Performance Appraisal usually reviews past behavior and so provides an opportunity to reflect on past performance of the bank employees. But to be successful they should also be used as a basis for making development and improvement plans and reaching agreement about what should be done in the future to enhance the bank's effect and effectiveness. Performance Appraisal is often the central pillar of performance management in the bank to keep the motivation of the employees high.

The study comes to a conclusion that banks set their strategies that emphasizes on the efficiency of the employees. These banks evaluate the employee's performance mostly objectively and the final decision regarding the appraisee is taken by higher authority, where some times the appraiser's or immediate supervisor's recommendation is neglected. The final decision is affected by the liking and disliking of higher authority.

- In public sector banks performance is evaluated once in a year. Public sector banks should increase the frequency of evaluation.
- On the contrary private banks experiences high growth in sales and therefore they set the strategies which are related with customer satisfaction, external recruitment etc.
- Study reveals that most of the employees do not have proper knowledge regarding the existing performance appraisal system and the factors or areas of the work they need to give emphasis.
- Appraisers should have personal knowledge of appraisee so that reward or punishment for the concerned employee can be decided.
- Besides appraiser's feel this job is worthless, therefore performance appraisal remains on papers and is considered as time waste activity. In order to overcome this barrier rewards for executing a performance appraisal correctly and accurately should be created.

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