

## A Comprehensive Study of Performance Management Practices and Their Effectiveness in Indian Banking Sector

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### Abstract

Human resource is the most important resource therefore it is to be managed, utilize and achieve the targets very effectively and efficiently. Therefore, employee performance management is very vital for the success of any business. The essential side of performance management is to motivate employees at work to yield better performance at any level either at department processes or organizational level. In present competitive situation, the need for managing employees' performance is very high and for that purpose various practices are being followed by performance management in various industries across the world. In Indian banking the market situation is very competitive that poses greater challenges in managing banks for growth and survival. The researchers have suggested that it is only the manpower that can make the difference in achievements of the banks. The employees' performance makes a great impact on the overall business performance of the banks. The performance of the employees should be managed on top priority for better performance, business performance and improve the effectiveness of the banks. Some of the banks have started managing performance of employees by adopting various practices. But still there is a big gap to cover. Therefore, the performance management functions are very important and these are the need of the hours in Indian banking system.

### Key words:

Performance management, performance measurement, Performance appraisal. Performance management practices in Banking



### Introduction

Considering the factors of production, the most crucial factor of production has been the manpower (human resources) that plays critical role in enhancing quality and eventually productivity. Ignoring the human resource can prove to be disastrous. The human resource is to be managed very efficiently to utilize with an idea of optimization for achieving all organizational goals effectively. Therefore, manpower management is very important functionality of performance management that helps to “maintain, develop and motivate” people at work yielding better output and results. This simply offers competitive advantage to the organizations which continuously do so that helps them to achieve sustainability in long run. On helping to realize HRM objectives,

various practices are being followed by performance management in various industries across the world.

Currently, Indian financial systems includes “government owned”, “private” and “specialized banking institutions” which are centrally governed by the Reserve Bank of India Act. Since 1991, government liberalized the policy and allowed private companies to work in banking sector. At present the Indian financial system consists of “public, private, cooperative, development and foreign banks”. At present in India the market situation is very competitive and it has become very difficult to survive, grow and excel in the business performance. The researchers have suggested that it is only the manpower that can make the difference in achievements of the banks. The employees’ performance makes a great impact on the overall business performance of the banks. The performance of the employees should be managed on top priority for better performance, business performance and improve the effectiveness of the banks. Some of the banks have started managing performance of employees by adopting various practices. But still there is a big gap to cover. Therefore, the performance management functions are very important and these are the need of the hours in Indian banking system.

### **Rationale of the Study**

The Indian banking sector is facing stiff competitions. To perform better and before others, there is great need to manage employees and their performance. It is only the employees’ performance that can make the substantial differences in overall performance of the banks. The need for managing employees’ performance has been felt strongly worldwide to achieve the predetermined goals effectively and excel in overall organisational performance. The performance management is playing a very significant role in developing manpower, performance, profitability and reputation of the company. The company can excel in the overall business performance. The importance in present time of managing employees and their performance is rapidly increasing in banking sector too. Its importance in future would be increased further. That is why the topic “A Comprehensive Study of Performance Management Practices and Their Effectiveness in Indian Banking Sector” has attracted us a lot and selected it for the research work.

### **Scope of the Study**

The importance of manpower in present global scenario has been increased due to high competition level. There is a strong need to manage the performance of employees on continuous basis of higher standards. They are to be understood properly, trained, appraised, motivated; created willingness to shoulder the responsibility so that their effectiveness at work and overall effectiveness of the organization can improve. That is why the focus in on management functions regarding employees’ performance and for this purpose the leading banks from Indian banking sector are taken for the study. The scope of the topic is limited to performance management functions and their effectiveness in selected leading banks from Indian banking sector.

### **Expected Contribution from the Study**

The contributions of this study are multifold. First, it add the body of knowledge by clarifying the concepts and operationalization related to HR performance management. This study further offers valuable insights related to performance management in banking to the practitioners (Banks), academicians, researchers etc. insights related to work environment, need for competence leads to banks’ performance and organizational efficiency helps them to chart out the strategy. The bank management if feel may implement the suggestions for improvement of practices for managing performance of employees for effective working in

present stiff competitive situation.

## **Literature Review**

In 1980, performance management emerged as a main stream concern, extracted from Drucker's (1954) MBO (management by objectives. As advocated by Fowler (1990), many processes such as "clear work based goals", and "accomplishment of objective development" were overlapped in MBO and performance management. Simply, performance management is a "process that help employees to perform their responsibilities to the best of their abilities with the objective of accomplishing or exceeding established goals and standards that are directly aligned with the organization's objectives" (McDonnell and Gunnigle, 2009). According to Armstrong (2006), systematic performance plans within an agreed framework of standard goals and competence required improved the organizational performance.

Performance management is defined as "a strategic and integrated approach to increasing the effectiveness of organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors" (Armstrong and Baron, 1998). It was regarded as management of organization (Moharman, 2002) and integration of employee objectives into organizational mission (Costello, 1994; Sparrow and Hiltrop, 1994). Performance management revolved around four normative concerns such as "to improve performance", "develop employees", "meet the expectations of stakeholders", and "improve communication and employee involvement" (Armstrong, 1999).

Ketter (2010) emphasized the role of middle managers in implementing performance management by motivating employees and executing business-level strategies. The literature outlines that front line managers are key to make PM effective (Williams, 2002; Torrington et al., 2008). The existing performance management was biased about financial measures, Chang (2004) argued the inclusion of non-financial measures such as "employee job satisfaction", "customer satisfaction", "training and development". However, the literature was silent on presence of empirical evidences taking normative concerns excessively (McDonnell and Gunnigle, 2009; Buchner, 2007).

## **Performance appraisal- review**

Performance appraisal, a part of PM process is defined as "process of gathering, recording and critically analyzing information about the relative importance of employees to the organization". Performance appraisal was first used in the industry in 1800s stressing the role of human interaction (Dulewicz, 1989). For appraisal using pre-defined set of dimensions, trait-rating system was used by DeVries et al. (1981). The evolution of performance appraisal process shaped into more planned and formal future-oriented-process. Many scholars attempted the conceptualization of performance appraisal process considering assessment from requirements and rewards (Allan and Rosenberg, 1981; Karol, 1996; Sergeant, 2009).

Performance appraisal was used for the purpose of (a) maintenance of organizational control and (b) measurement utilization of HR efficiency (Cummings and Shwab, 1973; Boice, and Kleiner, 1997). A review of appraisal methods was carried out by Landy and Farr (1980) focusing on rater and process. Stephan and Dorfman (1989) linked reward with task performance. Dobbins, Cardy and Platz-Vieno (1990) studied "use of evaluations as feedback to improve performance, reduced employee turnover, increased motivation, existence of feelings of equity among employees, linkage between performance and rewards". However, the criticism was pointed out by Derven (1990) about effectiveness of appraisal process. Further, past literature also showed that reaction to appraisal was significant determinant of acceptance and use of performance appraisal system (Murphy and Cleveland, 1995). Cardy and Dobbins (1994) suggest that "with dissatisfaction and feelings of unfairness in process and inequity in evaluations,

any performance appraisal system will be doomed to failure”.

It was stated that "reaction criteria are almost always relevant, and an unfavorable reaction may doom the carefully constructed appraisal system" (Murphy and Cleveland, 1995). Admitted, critique to the appraisal systems was well noted by Murphy and Balzer (1989) advocating biases, Deryen (1990) advocating reliability and validity of systems.

### **Objectives of the Research Study**

Following are the objectives of this research work:

- To understand the concept of work environment, competition situation, need for higher competency and performance, impact of performance on organizational efficiency and reputation of the banks and difficulties faced in it.
- To find out the various management functions performed for managing higher performance of the employees and their effectiveness in selected banks in India.
- To know whether there is significant relationship between current competitive work environment and the practices adopted by the Performance management in banks.
- To know whether there is significant relationship between performance management functions on attitude, sense of cooperation and team spirit, skill development, individual performance and motivation level, improvement in individual and organization performance and overall business and reputation of the banks.
- Further, to know whether there is significant impact of Performance Management functions on the above mentioned variables in objective No. 4.

### **Research Methodology**

The research methods used was outlined in this section, consisting the logical sequences of the steps involved as follows:

#### **Type of Research**

This research is a descriptive research. The topic is theoretical and data are collected from selected banks from Gujarat region in India relating to employees performance management practices followed by banking sector. The descriptive research is most suitable to the topic of the study.

#### **Sources of Data**

For the study purpose both primary and secondary data had been used. The primary data collected from employees, their supervisors, and managers. The secondary data collected from HR departments of the companies regarding training, career planning and development, performance planning and appraisal, performance counselling and remedial actions to correct the deviations in performance and motivation of employees etc. These data have been used in combination as per need of the study.

#### **Instruments for Data Collection**

For collection of data relating to the topic the instruments used include questionnaire, interview, telephone,

internet, and mail. These have been used as per suitability of instruments while collecting data.

## **Research Methods**

For collection of primary data for this research work, survey and observation methods have been used. The study used descriptive research using survey which is non-experimental in nature.

## **Sampling**

It is not possible to collect data from all employees of the selected banks located at different places across the country. The sampling process has been selected for the study. The samples of the population (employees at different levels) have been selected. The convenience sampling method has been used for selection of samples. The samples include the employees from different locations, levels, jobs and availability at the time of research. Proper care has been taken to ensure that the samples have proper representative of the population.

The sample size is of 400. Formula for Sample size is:

$$= (Z \text{ score})^2 - \text{Standard Deviation}^2 / (\text{margin of error})^2$$

Here, the calculation is:

Confidence level is 95%, Standard Deviation is: 0.5 and margin of error is: .05

$$\text{So, } = (1.96)^2 - 0.5(0.5) / .05 = 3.8416 * 0.25 / .0025 = 384.16 \text{ Approximately } 385.$$

## **It is rounded off to 400 for research study.**

The respondents have been selected according to the following plan discussed in the table. It is assumed that the practices adopted by performance management are similar across India and due to vast area of India study cannot be conducted across India. Therefore, Gujarat region is selected for the study. Major four cities Ahmedabad, Baroda, Rajkot and Surat have been selected from Gujarat region. Special care has been taken for selection of branches of selected banks to ensure the proper representation of the population. It was expected that from a particular area and different levels of employees the respondents may not be available despite of repeated efforts. The number of respondents in these conditions was likely to vary but repeated efforts were put to keep the numbers as per the plan without disturbing the total number of respondents from the bank. To carry out the study the time take for the research study is of two month (January and February 2017). It was considered the adequate duration for the research work, neither very short nor long duration.

**Table 1: Respondents Distribution Plan According to Location and Level of Employees**

Name of the Bank	Ahmedabad			Baroda			Rajkot			Surat			Total
	Level			Level			Level			Level			
	1	2	3	1	2	3	1	2	3	1	2	3	
1. State Bank of India	1	3	6	1	3	6	1	3	6	1	3	6	40
2. 2. Bank of Baroda	1	3	6	1	3	6	1	3	6	1	3	6	40
3. PNB	1	3	6	1	3	6	1	3	6	1	3	6	40
4. Union Bank	1	3	6	1	3	6	1	3	6	1	3	6	40
5. HDFC Bank	1	3	6	1	3	6	1	3	6	1	3	6	40
6. ICICI Bank	1	3	6	1	3	6	1	3	6	1	3	6	40
7. Axis Bank	1	3	6	1	3	6	1	3	6	1	3	6	40
8. S & C Bank	1	3	6	1	3	6	1	3	6	1	3	6	40
9. Citi Bank	1	3	6	1	3	6	1	3	6	1	3	6	40
10. HSBC	1	3	6	1	3	6	1	3	6	1	3	6	40
Total	10	30	60	10	30	60	10	30	60	10	30	60	400

### Findings of the Research Study

Approximately 3/4th of respondents accepted that the work environment is very competitive and there is need to improve performance of employees to get edge over their competitors. For this purpose performance management is performing various functions in their banks. Nearly two third of them agreed that there exist the proper selection process and have been selected on the basis of merit. Nearly two-third of the respondents agreed that there exist orientation, education and training programmes in their banks but still the sincere efforts are missing.

Nearly half of the respondents agreed that on job coaching guidance and counselling take place timely but there is scope for improvement further. Less than two third of them accepted that the employees' performances are measured on regular basis but proper identification of deviation in performance is still missing. Proper weak areas are not identified specifically. Nearly half of them said that the practices followed by Performance Management for managing performance of employees are followed in most of the banks but still there is no clarity of objectives of the functions to managers and employees.

Slightly more than two third of the respondents said that the practices of compensation plan, performance feedback, remedial actions plan, recognition and reward systems are followed but there was improper focus and execution of these functions. Nearly half of them agreed that the concerns of performance management regarding productivity, planning of performance, performance measurement and review is not serious. The approach of management is casual.

Nearly two third of respondents agreed that the employees are provided promotion and career developments opportunities timely in their banks. It seems that still there is a scope for improvement. More than three fourth of the respondents have agreed that the impact of management functions on attitude, motivation and commitment of employees towards work is of average. There is a good scope for improvement in this area in future. Again three fourth majority of respondents agreed that the effectiveness of performance management functions on overall banks performance and their reputations is of average. This is a weak area again and it needs a lot of improvement further.

### **Suggestions**

1. From the above mentioned observations on research study the following points are suggested:
2. For further improvement in performance of employees the management should focus more on quality of employees, their motivation and performance so that they can stay competitive in banking sector.
3. To overcome the difficulties of selection process and basis of selection the performance management should pay more and timely attention on these processes.
4. The orientation, education and training programmes in banks are conducted but the sincere efforts are missing. The accountability of in-charge manager/supervisor should be fixed and must be held responsible for effective management of these programmes.
5. It is said that there is scope for improvement further on job coaching guidance and counselling. It is suggested that the trained and motivated supervisors should get involved in these and should be carried out seriously and timely.
6. It is suggested that for proper identification of deviations in performance the performance standards should be decided and communicated to all concerned. Performance measured should be properly compared with standards and variations should be identified and reported timely.
7. It is suggested that to bring the clarity of objectives regarding functions to managers and employees that objectives of performance management should be well prepared and communicated to them for effective results.
8. It is suggested that the managers responsible should have proper focus on and execution of functions of compensation plan, performance feedback, remedial actions plan, recognition and reward systems.
9. It is suggested that the concern of performance management should be specific and serious to get the desired results regarding productivity, planning of performance, performance measurement and review. Special care is to be taken in this case.
10. It is suggested that regarding provided promotions and career developments opportunities the policies are to be reviewed, communicated and then implemented in a proper and fair manner.

To improve the impact of functions of management functions on attitude, motivation and commitment of employees towards work is a long process and many functions are involved in it. The following points are suggested;

- Performance management policies should be designed clearly. If exist then should be reviewed.
- All policies relating to this should be properly communicated to all concerned persons.
- Employees should be selected through proper selection process and on merit basis.
- Proper appraisal system, on job guidance, counselling and performance feedback should be there.
- Proper focus and implementation of policies should be there.

- A healthy work environment of trust, openness and team spirit should be developed.
- All related practices followed in this respect should be fair and transparent.

If the focus is there on the above mentioned suggestions then effectiveness of performance management functions on overall banks performance and their reputations would improve positively and drastically. No doubt it is a time consuming process and one should not expect the results overnight.

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