

PERFORMANCE APPRAISAL IN INDIAN BANKING SYSTEM

Iqbal Khan*

ABSTRACT

Performance appraisal is a multi-step process of aligning employees' work behavior with the strategy and goals of the organization. From the Statistical Report of Reserve Bank of India, it can be concluded that still there is a need to develop a performance appraisal system which can be universally applicable in banking sector and other organisations. Performance of employee is evaluated but it is rarely communicated. Organizations must make effective use of performance appraisal for identifying training needs and also as a basis for promotion. The other result shows that in most of the banks performance is not linked with the rewards which lowers the morale of employees and therefore efficiency and profitability of these banks is affected.

Keywords: Performance Appraisal, Banking Sector, Training, Encouragement Rewards.

Introduction

Performance of an enterprise indicates how its management has been accomplishing the goals which they had set for the enterprise. According to T.A. Hoi, "Performance is a measure of the degree to which an organization fulfills its purpose. It may be defined as a critical assessment or evaluation of various activities in different areas of operations of an organization."

In the words of Arches and Choate, "Performance means how successful an organization is in achieving its objectives. In an isolation situation, it cannot be examined satisfactorily because it is affected by so many factors which are inter-related."

In the words of Erich A. Helfert, "The measurement of business performance is more complex and difficult, since it must deal with the effectiveness with which capital is employed, the efficiency and profitability of operations, and the value and safety of various claims against the business." Along with that he also said that, appraisal of performance deals with past data and conditions, from which it may be difficult to extrapolate future expectations.

Performance appraisal involves a broad area of coverage. It is a detailed study of the performance of business enterprises. The perspective throughout is on the effective management of company resources. It indicates areas which call for improvement, whereas in case of good result, it indicates the ways and means to improve the performance to the maximum limit.

Review of Literature

Raja M. Rather (2013) found that public sector banks are not behind in providing new innovative services and products, customer centric approach by employees, strengthening image of bank, expanding accessibility, offering more augment services to the customers. It further indicate that private sector banks are losing its experience based core competitive area where they started with that leads to serious strategic challenge for private sector banks. The Indian banking can be broadly characterized as nationalized (government owned), private banks and specialized banking institutions. The Reserve Bank of India performed a centralized body monitoring any discrepancies and shortcoming

* Research Scholar, Department of Business Administration, University of Rajasthan, Jaipur, Rajasthan, India.

in the system. Nationalization of banks took place in 1969, the public sector banks or the nationalized banks have attained a prominent place and has since then seen tremendous progress. The Indian banking has finally taken up challenges under competitive dynamics scenario in India. Banking sector is successfully addressing the relevant issues to take on the multifarious challenges of globalization.

According to ArgyriosKranias and Maria Bourlessa (2013), “In today's turbulent economic environment service quality is an invaluable asset that banks should manage in order to survive and gain a competitive advantage. The present study assessed and compared the level of perceived service quality offered by various Greek banks. Significant differences were found between the Greek banks regarding the perceived quality of their banking services. Moreover, this study examined the highly debated link between service quality and service loyalty. The findings of this study indicate that convenience-proximity of the bank impacts significantly on loyalty of bank customers.”

The paper by Paul van der Boor, Pedro Oliveira and Francisco Veloso (2014) examines “the extent to which users in developing countries innovate, the factors that enable these innovations and whether they are meaningful on a global stage. To study this issue, authors conducted an empirical investigation into the origin and types of innovations in financial services offered via mobile phones, a global, multi-billion-dollar industry in which developing economies play an important role. They used the complete list of mobile financial services, as reported by the GSM Association, and collected detailed histories of the development of the services and their innovation process. This analysis, the first of its kind, shows that 85% of the innovations in this field originated in developing countries. They also concluded that, at least 50% of all mobile financial services were pioneered by users, approximately 45% by producers, and the remaining were jointly developed by users and producers. The main factors contributing to these innovations to occur in developing countries are the high levels of need, the existence of flexible platforms, in combination with increased access to information and communication technology. Additionally, services developed by users diffused at more than double the rate of producer-innovations. Finally, authors observed that three-quarters of the innovations that originated in non-OECD countries have already diffused to OECD countries, and that the (user) innovations are therefore globally meaningful.” This study suggests that the traditional North-to-South diffusion framework fails to explain these new sources of innovation and may require re-examination.

According to Samson Yusuf Dauda and Jongsu Lee (2015), “the importance of service delivery technology and online service adoption and usage in the banking industry has received an increased discussion in the literature in recent years. Owing to the fact that Strong online banking services are important drivers for bank performance and customer service delivery; several studies have been carried out on online banking service adoption or acceptance where services are already deployed and on the factors that influence customers? Adoption and use or intention to use those services. However, despite the increasing discussion in the literatures, no attempt has been made to look at consumers? Preference in terms of future online banking service adoption. This study used conjoint analysis and stated preference methods with discrete choice model to analyze the technology adoption pattern regarding consumers? Preference for potential future online banking services in the Nigerian banking industry. The result revealed that to increase efficiency and strengthen competitiveness, banks need to promote smart and practical branded services especially self-services at the same time promote a universal adoption of e-banking system services that add entertainment or extra convenience to customers such as ease of usage including digital wallet, real-time interaction (video banking), ATMs integrated with smart phones, website customization, biometric services, and digital currency. These services can contribute to an increasing adoption of online services.

The aim of the study by Nesrin Ozatac, Tulen Saner and Zeynep Suzmen Sen (2016) is “to evaluate the determinants of customer satisfaction on higher service quality in North Cyprus Banking sector. SERVQUAL model is used to analyse the perception of customers on determinants of service quality. Total of 207 cutomers of the major banks in North Cyprus have been surveyed. Empirical analysis are carried out by SPSS 18. Empirical results reveal that Cutomer satisfaction in the banking sector depends on good and firm relations, building trust between customers and bank employees for the case of North Cyprus. Results also suggest positive word of mouth plays a major role in customer satisfaction.”

According to Jesús Cambra-Fierro, Lourdes Pérez, Emily Grott (2017), “although many firms profess to adopt a customer-centric approach many are yet to embrace the notion that value is not solely created within the boundaries of the firm, that it is created co-jointly with outside parties. As such, value co-creation has increasing importance in modern marketing, impulse by Service-Dominant Logic. While

co-creation is a hot-topic in the marketing literature, services marketing literature recognizes the impact of demographic characteristics in consumer behavior. However, literature analysing the effects of demographics in co-creations models is very scarce. Therefore, the aim of this paper is to examine a set of outcomes of co-creation (satisfaction, loyalty and WOM) from a customer perspective. More, this research also analyses the potential moderating effect of demographic characteristics such as gender and age in this co-creative framework.

The results show that co-creation directly affects customer satisfaction, customer loyalty and WOM. Co-creation also results in increased levels of customer satisfaction, which in turn mediates the effect of co-creation on customer loyalty and positive WOM. Data also reveal different patterns of behavior depending on gender and age. This paper contributes to the understanding of co-creation from a customer viewpoint. Firms should strive to foster co-creation initiatives as this can lead to increased levels of customer satisfaction, more loyal customers and the possibility of attracting new customers through positive WOM by current customers. Customers' databases must be segmented for higher levels of marketing campaigns efficiency.

Objectives of Performance Appraisal

- **Insightful:** The main object of performance appraisal is to get insight of the business and critically analyze and evaluate its operational efficiency in various areas of business activities.
- **Assessing Efficiency:** Performance appraisal aims at assessing the efficiency of the business in achieving its targets and ensuring the effectiveness of it for the optimum use of human, financial and natural resources available to the business.
- **Improvement:** In case of any lack of efficiency, performance appraisal points out the loophole where an improvement is needed. It can easily suggest the measures to improve the efficiency. On the other hand, where the efficiency and effectiveness are satisfactory, the performance appraisal indicates further, the various ways to improve it.

Types of Performance Appraisal

The different types of financial performance appraisal specially for banks are as follows:

- **Internal Analysis:** The Internal Analysis is accomplished by those who have access to detailed financial records of the firm. Generally, management is interested in the analysis of financial statements for measuring the effectiveness of its own policies and decisions. Sometimes, officers appointed by court or government under statute will conduct internal analysis.
- **External Analysis:** The external analysis of financial statements is accomplished by the outside agencies like investors, financial analysts, lenders, government agencies, research scholars etc. The detailed records and accounting information is not available to the outside agencies and they rely mostly on published financial statements and information for analysis.
- **Vertical Analysis:** It is the study of quantitative relationship of one financial item to another based on financial statement on a particular date, Common size statement and ratio analysis are the examples for vertical analysis.
- **Horizontal Analysis:** When evaluation is done for several years simultaneously at a time for making conclusions, it is called horizontal analysis. It is based on the data from year to year, rather than one time available information. Horizontal analysis is accomplished for finding the trend for comparative financial statements by ratio analysis or other tools and techniques.
- **Short-term Analysis:** The short-term analysis of performance appraisal is undertaken mainly to determine the liquidity position of the firm and short-term solvency of the firm. The analysis is oriented on efficiency of working capital management and profitability of current operations.
- **Long-term Analysis:** The long-term analysis of performance appraisal is done with a view to evaluate the long term solvency, profitability, liquidity, financial health, earning capacity of the firm and debt servicing capacity etc, of a business enterprises. The objective of long term analysis is to determine whether the earning capacity of the firm is sufficient to meet the targeted return on investment, its adequacy for future growth and expansion of business.

Analytical Presentation of Performance Appraisal of Indian Banking Sector

According to the Statistical Report of Reserve Bank of India, 2020-21, various performance appraisal factors of Indian public and private sector banks collectively have been analysed and results obtained as follows:

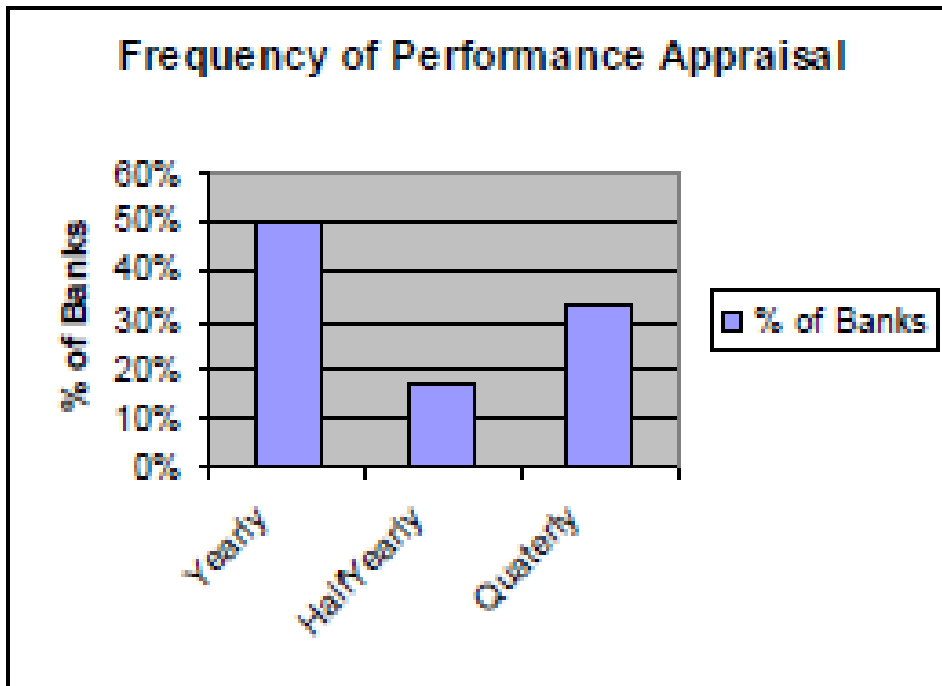


Fig. 1

From this Fig.1, it can be interpreted that 50 percent of the Indian banks do performance appraisal on yearly basis, 17 percent doing it half-yearly and 33 percent quarterly.

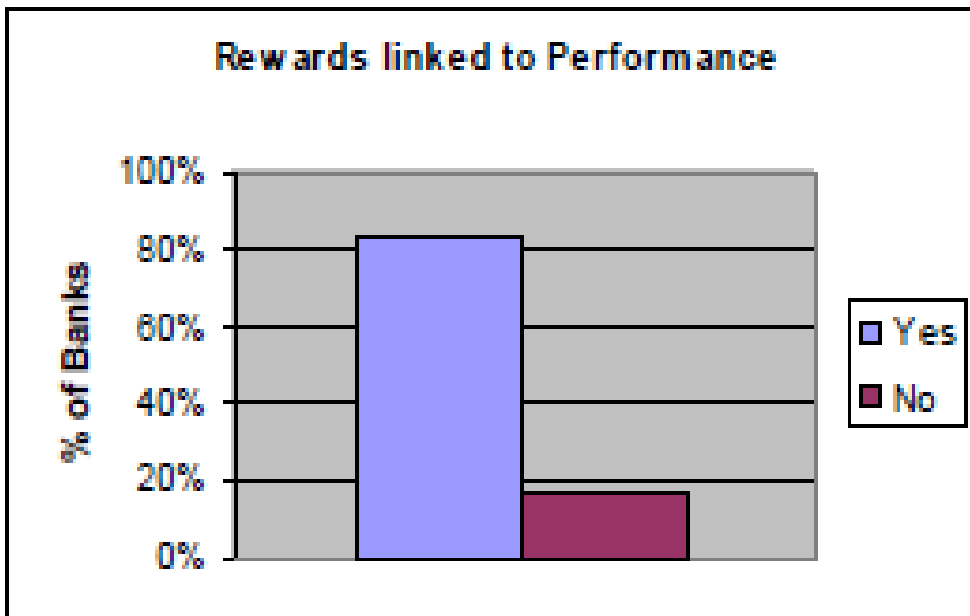


Fig. 2

It is necessary to motivate employees. For this purpose, performance should be linked with rewards. It has been found that nearly 83 percent of the Indian banks link their performance to rewards and the remaining 17 percent do not have their performance linked with rewards.

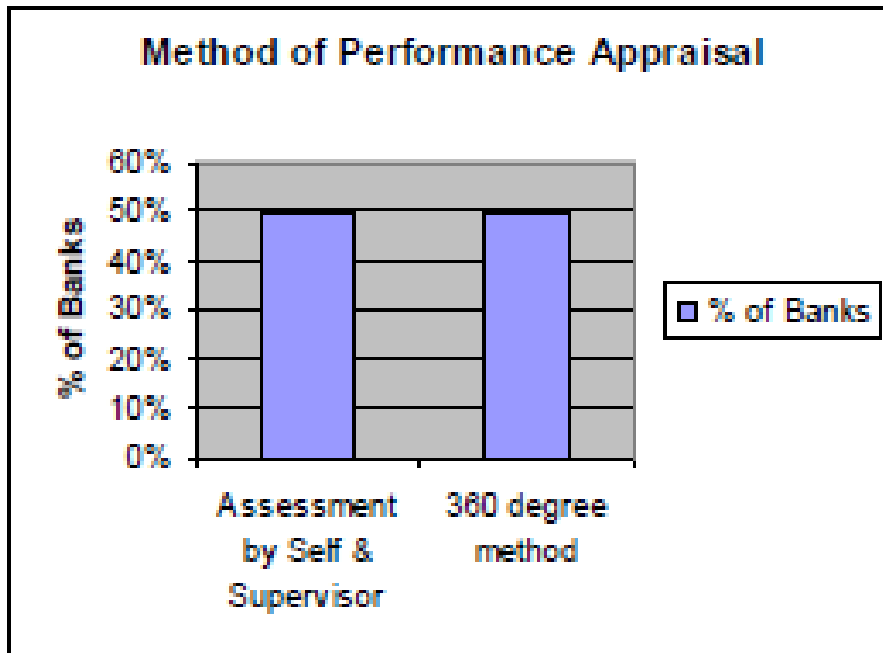


Fig. 3

From Fig. 3, it can be analysed that 50 percent of the banks use self and supervisors assessment as a method of performance appraisal and the rest 50 percent use 360 degree method for performance appraisal.

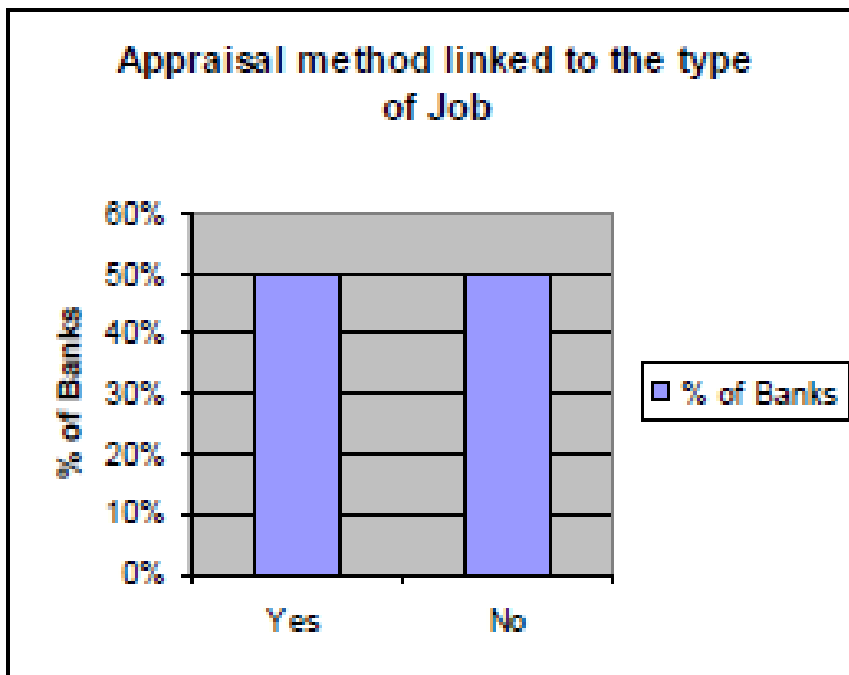


Fig. 4

About 50 percent of the Indian banks use different methods at different levels and for different jobs. However, different jobs require different skills and competencies.

Conclusion

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 effected 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.

References

1. Argyrios Kranias and Maria Bourlessa, "Investigating the Relationship Between Service Quality and Loyalty in Greek Banking Sector", *Procedia Economics and Finance*, Vol.5, 2013, 453-458.
2. Florence, P. Sargent and Walker Glibort (2004), *Efficiency and Its Management*, London: George Allen & Unwin.
3. Jesús Cambra-Fierro, Lourdes Pérez and Emily Grott, "Towards a Co-creation Framework in the Retail Banking Services Industry: Do Demographics Influence?" *Journal of Retailing and Consumer Services*, Vol.34, January 2017, 219-228.
4. Nesrin Ozatac, Tulen Saner and Zeynep Suzmen Sen, "Customer Satisfaction in the Banking Sector: The Case of North Cyprus", *Procedia Economics and Finance*, Vol.39, 2016, 870-878.
5. Paul van der Boor, Pedro Oliveira and Francisco Veloso, "Users as Innovators in Developing Countries: The Global Sources of Innovation and Diffusion in Mobile Banking Services", *Research Policy*, Vol. 43(9), November 2014, 1594-1607.
6. RBI Statistical Report, 2020-21.
7. Samson Yusuf Dauda and Jongsu Lee, "Technology Adoption: A Conjoint Analysis of Consumers? Preference on Future Online Banking Services", *Information Systems*, Vol.53, October-November 2015, 1-15.

