

# A Study on Performance Appraisal System in Banking Institutions

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## ABSTRACT

Banking institution is a rapidly increasing sector in India. In banks, new technologies, the number of branches increases, cutthroat competition, whole things are connected to the bank this time and fear of penalties so it is very difficult to upgrade with the time. In banks, the organization needs to be advanced and the employees have abilities to face new challenges and meet the targets of banks in time. Performance appraisal is mandatory for every organization in a banking institution it is helpful to increase the organization's ability. In simple words, it plays a key role in every organization to know about the strengths and weaknesses of employees and help to increase the productivity of employees. The study examines the secondary data, which is collected from various sources. The study deals with the performance appraisal system and gives the methods for which performance appraisal is necessary to banks.

**Keywords:** Performance appraisal system, Public sector banks, Private sector bank, Organization, Productivity

## INTRODUCTION

Human resource is the major resource for every organization. Every management's aim is to maximize outcomes at minimum cost and it is done by proper planning of every step which is taken by the management, making an effective organization structure, effective and efficient staff, giving proper direction, and using an effective control system. It is based on human resource management. The Performance appraisal necessary for human resources to check the effectiveness of their work.

In the present age, the performance appraisal system is used every organization for the growth and development of the organization. It increases the productivity of employees and helps to achieve the standard targets in time. The Performance appraisal system is a tool that plays a vital role in evaluating and assessing the performance of employees. It is used for evaluating the efficiency, strengths, weaknesses, opportunities, and threats of employees. It improves the interpersonal relations between employers and employees in the organization. The Performance appraisal system is related

to human resource development. It motivates the employees for the betterment of their working style. The Performance appraisal is not done based on biases. It is done in a simple and easy style for understanding by every member of the organization. Employees are also legitimate to know our work and how they work in a particular task.

The Performance appraisal is based on employees' performance in some certain goal which is set for them and assisting them if they are shortfall. In this system, the management gives training and awareness programs for increasing the outcomes of the organization. It improves the performance of employees and develops their working capacity. Sometimes it gives negative results, employees get stressed about the fulfillment of their goals and imbalance in their working social, and personal life. The outcomes of the performance appraisal system can help employees in career development, may provide better opportunity, improve work culture, social environment and helps in decision-making, and take corrective actions if find any inefficiency.

The performance appraisal system relates to each

employee to analyze their work and help to improve their capabilities. The evaluation system includes many methods which are used for different natures of the job it increases the feasibility and flexibility of working conditions in the organization. The Performance appraisal system is used in banks for assessing and examining the performance of employees in predetermined conditions public and private sector banks are used different methods for evaluation of employees' performance.

The paper will expose the study of the performance appraisal system in banking institutions and the role of performance appraisal in the Indian banking institution.

### **About the Banking Sector in India:**

In India, banks are the heart of the financial system. In earlier periods, banks were not established, the first bank - the Bank of Hindustan 1770 was not working well so it closed early time then the General Bank of India, Oudh Bank is also established and closed. Bank of Bengal, Bank of Bombay, and Bank of Madras were established they were known as presidential banks, these three banks are later merged and formed an Imperial Bank of India and nationalized in 1955 as known as State Bank of India. On the other side Reserve Bank of India was established in 1935 with the Reserve Bank of India Act 1934 by the recommendation of the Hilton young commission.

It is known as the Central Bank of India after the Banking Regulation Act 1949; various banks are established and nationalized. The private institution is actively taking part in the banking sector. The banks are categorized in many forms – Regional Rural Banks, Commercial Banks, for export and development purpose, and also foreign banks are taking part.

Earlier, the work of the bank was not up to mark, it was time-consuming, and people from poor or marginalized sections were facing serious problems in dealing with but nowadays banks provide various facilities such as ATMs, UPI, online loan processes, credit card facilities, locker facilities, gold loans and education loans other insurance and investment facilities, etc. Apart from this Banks also conduct various other social and awareness programs. Banks have given us various facilities and services as a result the whole banking experience got to change.

### **Meaning of Performance Appraisal:**

An individual's work performance is evaluated

regularly by the predetermined job requirements through a procedure known as Performance Appraisal. The assessment of an employee's relative value to the company, skills and flaws, and potential for further development are all subjective.

In simple words, it is used for evaluating the performance of employees and if found any deviation in the actual and standard performance of employees then we take corrective actions and give training to employees to fulfilling the gap and increase the capability and ability of employees.

*Dale S. Beach, "Performance appraisal is a systematic evaluation of the individual concerning his or her performance on the job and his or her potential for development".*

### **Purpose of Performance Appraisal:**

Performance appraisal in a banking institution serves several purpose. The purposes that contribute to the growth, efficiency, and effectiveness of both employees and the organization as a whole. Here are the primary purposes:

#### **1. Employee Evaluation and Development:**

- **Identifying Strengths and Weaknesses:** Performance appraisals help assess employees' competencies, skills, and areas for improvement.
- **Personal and Professional Growth:** It provides feedback that can help employees identify career development opportunities and create tailored training programs.

#### **2. Goal Setting and Alignment:**

- **Defining Performance Expectations:** Appraisals help set clear goals and performance standards that align with the bank's overall strategy and objectives.
- **Ensuring Strategic Alignment:** By aligning employee performance with the bank's strategic goals, appraisals ensure that all employees are contributing to the institution's success.

#### **3. Compensation and Reward Decisions:**

- **Salary Adjustments and Incentives:** Performance appraisals provide a basis for making decisions on salary increments, bonuses, and promotions.
- **Recognition and Motivation:** Rewarding top

performers motivates employees, enhances job satisfaction, and reduces turnover.

#### 4. Employee Engagement and Retention:

- **Boosting Morale:** Regular feedback and acknowledgment of performance can increase job satisfaction and engagement.
- **Retention of Talent:** Effective performance appraisals help identify high-potential employees and ensure that they are nurtured and retained within the organization.

#### 5. Human Resource Planning:

- **Succession Planning:** Appraisals can identify employees with leadership potential, which aids in succession planning for key roles.
- **Training and Development Needs:** By analysing performance, the bank can allocate resources for skill development and create targeted training programs.

#### 6. Performance Improvement:

- **Identifying Underperformance:** Appraisals help identify employees who may not be meeting expectations, allowing management to address issues and provide support for improvement.
- **Developing Action Plans:** Action plans can be created to improve individual performance and productivity.

#### 7. Compliance and Risk Management:

- **Ensuring Compliance with Regulations:** In a highly regulated industry like banking, performance appraisals help ensure that employees comply with policies, regulations, and ethical standards.
- **Risk Management:** Appraisals can identify behaviours that may pose risks to the institution, allowing management to take preventive measures.

Overall, performance appraisals in banking institutions are crucial for managing human capital effectively, driving performance, and ensuring organizational success.

#### Methods of Performance Appraisal:

There are various methods of performance appraisal that organizations, including banking institutions, use to

assess and manage employee performance. Each method has its own advantage and is chosen based on the organization's goals, culture, and nature of work. Here are the most common performance appraisal methods:

### 1. Traditional Methods:

#### 1.1. Rating Scale Method:

- o Employees are evaluated on a scale (e.g., 1 to 5) for various performance factors such as punctuality, teamwork, and job knowledge.
- o This method is simple, straightforward, and allows for quick comparisons across employees.

#### 1.2. Checklist Method:

- o A checklist of traits or behaviours is prepared, and the evaluator checks off those that apply to the employee.
- o Useful for objective evaluation and measuring compliance with predefined standards.

#### 1.3. Critical Incident Method:

- o Focuses on recording specific instances (positive or negative) of employee behaviour that are critical to job performance.
- o Helps identify strengths and areas of concern, although it may not capture overall performance.

#### 1.4. Essay Method:

- o Evaluators write a descriptive essay about the employee's strengths, weaknesses, and potential.
- o Provides qualitative information but can be subjective and time-consuming.

#### 1.5. Ranking Method:

- o Employees are ranked against each other based on overall performance.
- o Useful for identifying top performers, but it can create unhealthy competition and doesn't show absolute performance levels.

### 2. Modern Methods:

#### 2.1. 360-Degree Feedback:

- o Feedback is collected from multiple sources including peers, subordinates, supervisors, and even customers.
- o Provides a comprehensive view of the employee's performance and is particularly effective in leadership development.

**2.2. Management by Objectives (MBO):**

- o Employees and managers jointly set specific, measurable goals. Performance is evaluated based on the achievement of these goals.
- o Encourages alignment with organizational goals and self-accountability, but it requires ongoing communication and commitment.

**2.3. Behaviourally Anchored Rating Scale (BARS):**

- o Combines elements of traditional rating scales and critical incidents by defining specific behaviours that correspond to different performance levels.
- o Offers a more objective approach, reducing ambiguity and enhancing accuracy.

**2.4. Psychological Appraisals:**

- o Focus on the psychological attributes of the employee, such as cognitive abilities, emotional intelligence, and leadership potential.
- o Helps in understanding employee potential and development needs but is typically used for high-level positions.

**2.5. Assessment Centres:**

- o Employees undergo simulations, role-playing, and other exercises that replicate real-world job scenarios.
- o Useful for evaluating leadership, decision-making, and interpersonal skills. Often used for managerial and executive-level appraisals.

**3. Results-Oriented Methods:**

**3.1. Human Resource Accounting Method:**

- o Measures the cost of retaining an employee versus the contributions they

make to the organization in financial terms.

- o Useful for evaluating the return on investment of employees, but it is complex and less common in practice.

**3.2. Productivity and Output-Based Appraisal:**

- o Measures employee performance based on the quantity and quality of output.
- o Best suited for roles with clear, measurable results, but may overlook qualitative aspects like creativity and collaboration.

**4. Project-Based Review:**

**Project Performance Review:**

- o Focuses on evaluating performance based on contributions to specific projects or assignments.
- o Effective for project-based organizations or roles with a high degree of task variability.

**5. Self-Appraisal:**

- Employees evaluate their own performance against defined criteria.
- Encourages self-reflection and personal accountability but should be combined with other methods for balanced insights.

**6. Peer Review:**

- Employees are reviewed by their colleagues who have worked closely with them.
- Offers insights into teamwork, communication, and interpersonal relationships. However, it may lead to bias or favouritisms.

**7. Forced Distribution Method:**

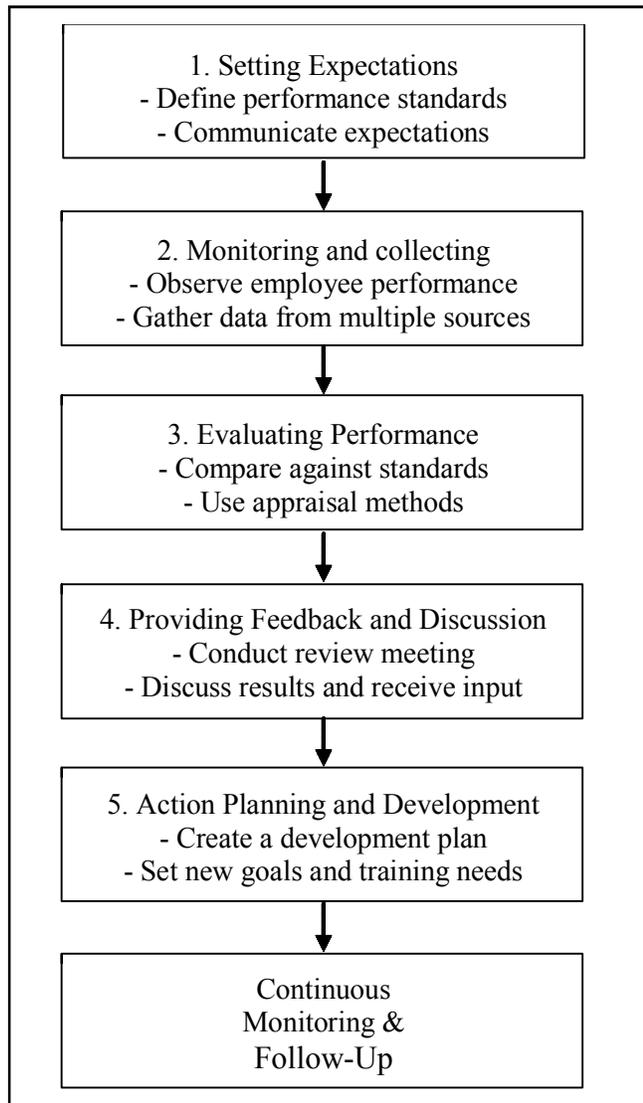
- Employees are divided into categories such as top performers, average performers, and low performers, often following a bell curve.
- Useful for maintaining a high-performance culture but may demotivate employees if not managed properly.

Selecting the right performance appraisal method depends on the organization's specific needs, objectives, and the nature of the job being evaluated. A combination of methods is often used to ensure a comprehensive and fair assessment.

**Process of Performance Appraisal:**

The performance appraisal process can be

streamlined into five primary stages. Here's an overview along with a flow chart to illustrate the process:



This flow chart visually represents the key stages in the performance appraisal process and the sequential flow from setting expectations to follow-up actions for employee development.

**1. Setting Expectations and Standards:**

- Establish clear performance standards and expectations for employees based on their roles and responsibilities. Communicate these standards to ensure understanding and alignment.

**2. Monitoring and Collecting Data:**

- Continuously observe and document employee

performance throughout the appraisal period. Gather information from various sources, such as work output, behaviour observations, feedback from peers or customers, and self-assessments.

**3. Evaluating Performance:**

- Compare the collected data with the established standards. Use performance metrics and appraisal methods (e.g., rating scales, critical incidents) to evaluate employee performance objectively.

**4. Providing Feedback and Discussing Results:**

- Conduct a performance review meeting with the employee to provide feedback, discuss results, and address any concerns. This stage involves a two-way communication process, where both parties share their views.

**5. Action Planning and Development:**

- Based on the evaluation and feedback, create an action plan for development. Set new goals, outline a development plan, and identify training or skill improvement opportunities. Follow up regularly to ensure progress and support employee growth.

**Review of Literature:**

Hunnes *et al.* (2012) investigate the factors which affect the performance of employees. We find many significant genders effect in the performance appraisal system. Men are more stressed and have imbalances in work life as compared to women. In many organizations, the role of males is higher than females. Management is concerned differently for they analyse that employees work effectively but the gap is found between efforts and rewards. In similar the management resources are not used effectively and the duties and responsibilities are not properly assigned by the superiors.

Kilam (2014) observed that 360-degree performance appraisal is used in public sector banks uniformly. It is a human resources management activity and uses to fulfil the targets of the organization. A 360-degree appraisal is used in some higher departments for analysing the performance and compare with the standard performance. It is used in all levels of management. In public sector banks some changes are shown modern

methods are also considered this method is reliable feasible and useful for every organization.

Vivekananda and Mohan (2015) The performance appraisal system is Human Resource Development oriented. Many factors affect the performance appraisal system of employees. The use of 360-degree feedback systems by bankers has piqued their curiosity and they believed it is highly relevant to introduce the performance of employees. The performance appraisal system is a useful instrument it creates a good relationship n with employees' performance of employees can be planned to discover employees' potential and improve organizational effectiveness. The 360-degree appraisal system is a multiple appraisal system but it overcomes the threat of personal biases. In private sector banks 360-degree appraisal system is mainly preferred for evaluating the performance of employees in one feedback. In the performance appraisal system employees are motivated and also give their best to the organization.

Begum (2015) concludes that the performance appraisal system is used in management. Different organizations used different methods. Public sector organizations use the traditional method and private organizations use the modern method and new technology for evaluating the performance of employees. Both the organization values our employees and treats our employees like family members. In the private sector organization, employees are not satisfied with the working hour and get disturbed in working life. On the other side, they enjoyed their rewards and incentives for their quality of work in the organization. In public sector organizations, technologies are introduced frequently.

Singh and Priyanka (2016) study has analysed the relationship between training and performance appraisal system are taken. Human resource management plays a vital role in the development of an organization. The performance appraisal system is a system in which they analyse the performance and see any deviation between the actual work and standard work if any deviation is found then give training to employees for increasing the capabilities employees are also legitimate to know their performance. SBI is the largest public sector bank in India it satisfied our employees and made better career advancement planning. SBI treats all employees equally and is aware of our employees and gives training to our employees from time to time.

Devi *et al.* (2016) performance appraisal system is truly beneficial to our organization for knowing the

performance of employees. Performance appraisal system creates a good impact on employees to know their performance from time to time get and rewards, training, and knowledge about career advancement. But they also have negative outcomes the methods of the performance appraisal system are traditional, time-consuming, create conflicts, superiors' biases, and more stress on employees. The workload is high the growth of the organization also depends on employees. New technologies are introduced continuously to cope effectively by employees.

Shekhawat (2017) analysed that in this study, the performance appraisal system is done in all organizations and each organization's performance appraisal system is entirely different, it is done by higher authority and found that the main purpose is to promote employees. We found that employees have stress and they also face biases during the performance appraisal system. Many employees do not know the Performance Appraisal System. Sometimes it creates conflicts and also motivates employees to do better at their jobs. In the public sector, bank employees are more satisfied with their jobs than private-sector employees. Private sector employees know the performance appraisal system whereas public sector employees hardly know the performance appraisal system.

Waghmare (2017) In this study, we have focused more on employees of HDFC Bank. Employees know the system of the performance appraisal system and follow the instructions of top-level management. It motivates the employees to work more effectively but they are dissatisfied with the working hours. The 360-degree performance appraisal system is not popular in Indian banks. the service and products are good and consumers are aware of this. Employee liked their job profiles and training is provided to the employees who did not perform well. The overall performance appraisal system is different in each organization of HDFC Bank they review their policies from time to time and also introduce awareness programs about the Performance Appraisal System for new employees. They have also been given incentives and rewards for their hard work employees. The appraisal system should be clear and simple not difficult to understand by employees.

Anand *et al.* (2018)– The performance appraisal is affected by various demographic factors. The top management knows the strengths and weaknesses of the employees. The organization takes 360-degree

performance appraisals frequently. In the organization managers are communicative and friendly and give feedback from time to time to our employees for the objectives of the organization 360-degree performance appraisal is multi-rated and combined, method of performance appraisal is an important factor to increase the productivity of an organization.

Tyagi (2019) analyzed that banks make their strategies that emphasize the employees. The banks evaluate the employee's performance mostly objectively. The final decision regarding appraisal is taken by a higher authority. The final decision is affected by the liking and disliking of higher authority. In public sector banks, performance is evaluated once a year. On the contrary private banks experience high growth in sales and therefore they set strategies related to customer satisfaction and external recruitment.

Nanjundaswamy (2020) analysed that both banks used a performance appraisal system to examine the performance of employees. Public sector bank employees are trained and satisfied with the job profile as compared to private sector banks. The performance of private sector bank employees is better and they also know the concept of a performance appraisal system. Employees give their optimum output in turn for some financial reward. Private sector employees are more concerned about their career advancement as compared to public sector bank employees. The employees of both banks faced stress and used it as a motivational tool for their growth. The growth of the organization is depended on the performance of employees.

Uttam (2020) Performance appraisal is an important part of every organization for the assessment of employees' performance. In the public sector bank is evaluated once a year but the outcomes are not good so they evaluate in the early phase so the outcomes are goal-oriented. In the private organization, the evaluation system is good they conduct a performance appraisal system for maximization of productivity and sales, set policies and strategies, for consumer satisfaction, etc. Some employees are not aware of the system of performance appraisal and they think it is wasting of time. Both organizations have plans for rewards and punishment so the employees are doing their best to achieve the targets.

#### **Need of the Study :**

The performance appraisal system is a part of

management activity it is necessary to use the methods for increasing the productivity of employees many organizations do not know the performance appraisal system and they use periodic examinations for promotion and increments in salary most of the employees are not aware of the performance appraisal system in this system employees. Bank performance is evaluated and compared with the predetermined standards and find any differences then take some corrective action to fill the gap therefore this study is proposed to be helpful to every organization in why the performance appraisal system in organization is necessary.

As India is a developing country, Banks play a very important role in the development of any economy therefore the timely evaluation of the employees is needed so that they can perform to the best of their abilities and contribute more towards the Bank as well as for the country.

#### **Why is Performance Appraisal Important for Banking Institutions?**

Nowadays, many challenges are faced by banks on a daily basis with the advancement of technology. Banks are facing problems related to technological know-how; to meet this demand banks need to improve their performance as it is one of the key components in the development of the banking sector in India. Employees work effectively to increase productivity and for their growth and development. We need to analyze the performance of employees in order to achieve the objectives and goals of the banks. In banking institutions, both public and private sector banks are using different methods of performance appraisal for analyzing the performance of employees. Employees' performance is necessary to check because they are working properly the aims are fulfilled in time.

#### **Objective of Performance Appraisal;**

- To know the meaning of the performance appraisal system.
- To know the different methods of performance appraisal systems.
- To understand the role of performance appraisal in Indian banking institutions.
- To know how the performance appraisal system helps in increasing the efficiency of employees and enhances the organization's ability to perform.

## RESEARCH METHODOLOGY

In research methodology, we arrange the information related to the research problem by using various techniques, and processes to collect data and analyze the data, and systematically interpret the findings.

In this study, we examine the secondary data which is collected from the Ph.D. thesis, research papers, and journals, and the secondary information collected from books, internet websites, research articles, bank publications, etc.

### Scope of the Study:

This study is based on secondary information that we collect from various sources of the Ph.D. thesis, articles, research papers, journal books, etc. This study is for performance appraisal in banking institutions. In this paper we simply found the effect of performance appraisal in banking institutions.

### Conclusion:

This research data gives the result that there is a deep and positive effect of performance appraisal system in banking institutions concluded that every organization must use the performance appraisal system for employee development and career advancement which increases the performance of Banking System The outcomes are-

- In public sector banks performance appraisal system is not done frequently and in private sector banks performance appraisal system is used continuously and used as a management activity.
- In public sector banks employees are trained and satisfied with their job and in private sector banks employees are not trained and satisfied with the working hour more work.
- In public sector banks employees are not stressed and on the other hand, in private sector institutions, employees are more stressed and feel demotivated.
- Both institutions can create demographic effects biasedness in employees and create conflict in management.
- Both institutions do not provide training and development programs for employees from time to time for increasing the efficiency of employees and do not promote the ideas of employees.
- Both institutions have no policy for rewards and

punishment for the quality of work.

### Suggestion;

Both institutions can make effective management for performance appraisal so the performance of employees is truly measured and evaluated without any biases and treat all employees equally.

Performance appraisal is done continuously and management creates policies for reward and punishment and is helpful to employees to give suggestions and take feedback from time to time. Give training to employees for increasing their abilities and motivates the employees effectively make some entertainment plans for reducing the stress level of employees.

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