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## A CASE STUDY OF PERFORMANCE APPRAISAL SYSTEM IN PUBLIC SECTOR AND PRIVATE SECTOR BANKS AT UTTARAKHAND

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### ABSTRACT

*An extension of banks' functions has also extended the obligations on employees' in the banking sector. Long working hours and overburden of work on an employee are resulting in the inefficiency of employees. All this truly results in failure of achieving organizational goals and rise in the issue of unjustified remuneration. Performance Appraisal System seems to a solution for all these issues in all public sector and private sector banks. The current study focuses on how most of the banks are following the latest objective oriented KRAs based appraisal system. The procedure and other important aspects of the study are covered through the collection of primary data by structured schedules with in-depth interviews. All Regional HR Officers and Chief Managers of the three public sectors and three private sector banks were considered as a sample. The research design is an effort to capture the real outlook of the current appraisal system in the public sector and private sector banks through case study survey method in area district Udham Singh Nagar of Uttarakhand state.*

### KEYWORDS

KRAs, performance appraisal system, public sector banks, private sector banks.

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### INTRODUCTION

The present spectacular banking system in India is not devised overnight; it took numerous decades for evolution. The Indian banking system is not as simple in a way as it reflects, it has manifold stratum. Now the banking system is not limited up to the financial transactions, credits, and financial facilities. Apparently, it increases more obligations of HR practices again to judge the temperament of these challenges and define the functions and responsibilities to counteract these challenges and grab different prospects.

Changing the banking environment and stiff competition is bringing a lot of unwanted pressure on its employees. Banks are facing two major challenges: risk management and workforce management. Long sitting hours, additional field work with the workload and fast pace developing digital banking without any perky growth is bringing dissatisfaction among employees or increase in attrition rate. A competent workforce is becoming scarce in both terms quantity as well as eminence. In case any of resource is getting deficit or requires compromises in quality. It should be properly maintained for the benefit of the public at large. Currently, scholars contradict that employee's perception, emotion and attitude play a vital role in determining the efficacy of a performance appraisal system. Indeed, appraisal reactions i.e. satisfaction, acceptability and motivation to utilize feedback, are cited as a trend in appraisal research during the past ten years in a recent review of the literature (Levy and William, 2004).

### REVIEW OF LITERATURE

Performance appraisal activity in an organization is a mandatory and unavoidable task and it advocates that organizations with a higher aspiration for its standard aims must consider its human resource as higher valuable component (Abasilim, Ugochukwu David 2013). There will more chances of employee's better performance if employees will be aware of the consequences of performance appraisal positive & negative impacts. They may put more effort into the enhanced performance as better incentives and promotions depend upon their quality performance (De Nisi & Pritchard 2006)

Both public & private sector and accentuated the methods followed by both sectors in containing the talent with the organization for achieving organizational goals (Begum et al. 2015). Allahabad Bank has introduced a system that aims in assisting officers to make them aware of their strength and weaknesses and encourage the job improvement of performance. Employees' perceives greater fairness of performance appraisal system in private sector banks as compared to public sector banks (Shrivastava and Purang 2011). According to (Rao and Rani 2014) the fundamental aspects of performance appraisal errors and rating errors are foundation for analyzing the effects of rating errors on employee satisfaction and the interrelationship between them. Private Banks implemented modern techniques of performance appraisal far earlier.

### PROBLEM STATEMENT

Banks are service-oriented organizations and the way staff members behave and conduct themselves in the public defines the growth of the bank and increase in the number of customers. It creates a need for banks to think and reinstate to monitor those competitive skills. Often public and private both banks were failed to decide the annual increment based on appraisal ratings on a regular basis consequently banks are left with no appropriate mechanism to recognize and compensate top-performing employees and poor performers. Though the goals are set at the beginning of the financial year, yet they end up with surprising results. The performance appraisal mechanism fails to attain many expectations. The fairness of performance appraisal and performance-based payment practices emerged as significant predictors of the commitment of banks' employees. Thus, the proposed study will strive to identify the variables contributing to performance appraisal practices.

### RESEARCH OBJECTIVES

1. To study the current performance appraisal system of public sector banks and private sector banks.
2. To compare the performance appraisal system of public sector banks and private sector banks.

### RESEARCH METHODOLOGY

The research design opted is a case study method, the current research design strives to accumulate greater insight into study matter. In current study district Udham Singh Nagar of Uttarakhand was considered as the universe for the study, in which all Public Sector & Private Sector banks were included. Primary and

secondary data both data sources were considered. The primary data was collected top three public sector banks and top three private sector banks were taken as a sample on judgmental sampling– Public Sector Banks: State Bank of India, Bank of Baroda, and in Private Sector Banks: HDFC Bank, Axis Bank, IICI Bank. Whereas, the Regional HR Manager, Branch Heads and Chief Managers of public, private sector banks' employees' data was collected through without replacement sampling method. The primary data is collected through structured schedules with unstructured in-depth interviews.

## RESULTS & DISCUSSION

### Public Sector Banks Performance Appraisal System

The Performance Appraisal System in public sector banks is regulated as per the RBI guidelines, which is open for all to access. These guidelines define all norms and regulations apropos all aspect in the banking sector from HR policies to financial issues. Due to prominent human resource management related issues, these banks consider performance appraisal system one of the most crucial parts of human resource management in banks. It also helps to allocate a suitable person in the required place. The design of performance appraisal system comprises various sub-factors that need to be well thought-out while designing the Performance Appraisal System (PAS) components like format, responsibilities, and employees' participation are some prominently discussed issues. Most of the public sector banks follow *Key Resulting Areas (KRAs)* for the Performance Appraisal System (PAS) is used for measuring the individual performance. The PAS is based on appropriate KRAs for each employee. These KRAs are customized for each individual need to ensure the success of the performance appraisal process. These KRAs are properly synchronized among KRAs, employee's duties and employee's designation. Allocation of inappropriate KRAs can turn an efficient employee into inefficient. The headquarters design KRAs for almost every department separately. The headquarters are supposed to designs these KRAs at very outsized scale.

### Evaluation Standards& Performance Criteria

All three public sector banks' were evaluating employees' outcomes on the basis of pre-defined standards. Each bank has already categorized the performance standards and each time an employee performs; he /she fall into a certain category. Most of the performance criteria are based on KRA's, which put objectives into three major outcomes: Performance related Quantitative criteria, Qualitative criteria, and budgetary criteria. The quantitative and budgetary can be put into the same category, but the only difference is budgetary is target based while quantitative is business based. Here qualitative is consist of the third part that cannot be counted or calculated in a numerical term like customer satisfaction, relationship building, and attitude with colleagues, etc. Automatic system or head offices enter the budgetary criteria.

### Appraisal Purposes, Communication Frequencies and Procedures

All public sector banks were evaluating employees' for the promotion purpose, but even this purpose is limited for senior employees'. Another purpose is preparing a report of the employees that can be used on the later career stages of employees for various decisions. All banks are primarily promoting open door policies and direct communication among superior and subordinates. The performance appraisal system is conducted in all three public sector banks understudy annually. KRAs are decided at the beginning of every financial year after reviewing past ratings. The KRAs sustains until the end of the corresponding financial year. According to Regional HR officers the order for a procedure starts in two phases: The objective settings with rating distribution and employee's participation with post appraisal behavioral survey.

- Under the entire process, the KRAs are designed and decided at the headquarters level and then sent to the regional office, without any alteration in it.
- Regional Offices sent it to offices without any further changes.
- Only regional offices have the authority to rectify the headquarter decisions.
- After regional offices branch offices are the next stoppage for KRAs where branch manager distributes it among all the respective employees.
- Employees passively accept the performance appraisal targets, if he/ she found any hassle in it than he/she can send a request through proper channel for reconsideration.

The performance ratings are distributed generally in the first quarter of every financial year, where system ratings are automatically allocated to the individual based on their performance against KRA's, although division for distribution of KRA has been done at the head office level. A proper meeting is held for discussion regarding each individual KRA's & ratings. At this stage discussion also takes place about the shortcoming of performance and characteristics of KRA.

### Employees' Participation and Post Appraisal Treatment

In the regular course of action, the subordinate can meet the superior whenever he/she feels any hassle in work. But, there is no procedure for formal face to face interaction in all three sample public banks during the process. There are proper appeal systems for the employees to appeal if they feel any injustice in the performance appraisal system. Thus, to overcome this limitation there is a proper system of appeal exists. Through the proper channel, any individual may appeal to regional offices regarding incorrect KRA's. Even Post Appraisal Attitude Survey system subsists to address the employee's satisfaction issues if it is related to the appraisal system. Superior and subordinate both plays an equally prominent role in performance appraisal system, all responsibilities are bear up by employee since the insertion of KRA's till the end actually. All public sector banks understudy provides proper training of evaluation regarding rating to raters for reduction of biasness in the rating process.

### Performance Appraisal System in Private Sector Banks

Though private sector banks also come under RBI mandates, they must adhere all guidelines issued by the RBI, still, due to their ownership, they contain some autonomy in their hands to carry out the functions for maintaining profitability. All private sector banks are putting outstanding efforts in designing and opting the best performance appraisal system for the timely accomplishment of goals and objectives by linking them to the individual's goals. All private sector banks are exercising KRAs like public sector bank, their design has large variations in themselves. All three private sector banks understudy has well-defined and articulated performance appraisal system based on KRA. In which there are two broad categories of KRA's: quantifiable & non-quantified.

### Evaluation Standards& Performance Criteria

The evaluation system of PAS in private sector banks understudy contains variations even though they all belong to the same fraternity. KRAs are categorized on the basis of score or marks in all banks (including banks understudy). All private banks have categorized the score on the basis of their own convenience in some categories, in some banks it is in quantitative calculated in terms of marks while other it is being calculated on the basis of non-quantitative category. All banks have distinct the criteria for performance as per their policies and procedures, i.e. In the first sample bank performance is directly linked with revenue and operational. This directly categorized into the financial and non-financial category. Quantitative parameters explain targets and activities in numerical form on the other hand non-quantitative is a concern with additional activities that are related to behavioral terms specifically.

### Appraisal Purposes, Communication Frequencies and Procedures

Incentives and promotion are being directly linked to the performance appraisal system in all private sector banks understudy. The primary purposes of performance appraisal in private sector banks are promotion & increment (whereas the degree of relatedness varies from bank to bank). The banks, have an open communication system, a separate meeting for discussion of performance objectives is called and handled by the manager or branch manager. In which all subordinates participate actively. But, the rating and evaluation of the appraisal system are discussed in a closed system. The input of all performance related data takes place throughout the year but ratings of evaluation process occur once in the year. At the beginning of the financial year branch manager and HR collectively sets the performance objectives for all employees. In all three sample bank, there was no legal issue is involved. KRA's (objective sets) is bases along with all behavioral outcomes for employees rating. Discussion regarding performance rating may vary from person to person.

### Employees' Participation and Post Appraisal Treatment

If the individual feels keen desire to interact than the individual can go through proper channel & get connected to authorities through video conference. On time of outcome discussion meeting, the individual may get equal opportunity to defend oneself. Self-appraisal concept has adhered in the other two private banks understudy. The employee needs to input some of the dates at rating phase but it cannot be considered as a self-appraisal. When an employee feels unsatisfied with results and feels that do not feel fair, there is a system to inform to appeal about injustice or some ambiguity in KRA's outcomes. There is only one private bank that handles their post-appraisal queries and issues actively.

It is observed that employee does not get an opportunity to attend the post-appraisal meetings or there is no meetings takes place in all sample private banks understudy. They do not get an opportunity in the appraisal system to share their any opinion or influence their decision. All banks handle the deployment of employees' responsibility differently. In all three private sector banks, superior takes no responsibilities in the performance appraisal system. In all three banks reductions of biasness is being actively handled. But, in the first sample private sector banks a moderation committee exists. The moderation committee checks the rating and if they find something unsatisfactory the superior may be called for discussion. Whereas in the other two sample private banks, there is no such type of committee.

**FINDINGS**

The cross-bank analysis—a summary of the key findings of the multiple comparisons of performance appraisal system in public sector & private sector banks.

Research Objective	Performance Appraisal System Features	Public sector banks	Private sector banks
<b>Design of the appraisal system</b>	Appraisal format	i. Performance is KRA based: Well-defined and specifically customized as per each individual job profile, department & section. ii. Fully Online& Fully automated	i. Performance is KRA based: Well-defined and specifically customized as per each individual job profile, department & section. ii. Fully Online& Fully automated
	Evaluation benchmark	i. Grade "AAA" or "Excellent" to "E" or "Poor" ii. based on marks out of 100	i. Ratings are provided on like 1 to 5. ii. On the basis of percentage iii. Out of 500 marks
	Performance criteria	Quantitative, Qualitative and Budgetary	Financial & Non-Financial
	Appraisal purpose	i. Achieving organizational goal ii. Promotion (limited only for seniors) iii. No link with incentives, bonus, and T&D	i. Achieving organizational goal ii. Promotion & incentives (completely linked for all) iii. No link with Training & Development
	Communication	i. Open System ii. Depends on employee	Open System for KRAs but for ratings it's closed
	Frequency	Annually	Annually (break in monthly parts)
<b>The procedure of the appraisal system</b>	Performance objective setting process	At the beginning of the financial year i. Head Quarters sets objectives sent it to Regional Offices than Head Offices to Branch Offices, where employee accept it passively ii. None of the employees takes part	At the beginning of the financial year i. Head Quarters HR and Branch Head collectively set ii. Employees are not involved at this stage
	Distribution of performance rating& explanation	At the end of the financial year i. Allocated from Head Quarter or System generated so no explanation required ii. In one bank manager sends it secretly so no explanations iii. In one bank understudy employees also do self-appraise KRAs	At the end of the financial year i. Allocated from Head Quarter or System generated so no explanation required ii. In one bank manager sends it & no explanations
	Employee's participation& Feedback	If feels he/she can discuss KRAs i. Equal opportunity for employees ii. Feedback is also expected	Employees equally participate in the evaluation meeting
	Appeal system	Employees can appeal if they feel unsatisfied	Proper grievance redressal committee is formulated
	Post appraisal attitude survey	It occurs once in a year	No there is no post-appraisal meeting
<b>Manager &amp; employee responsibilities</b>	Manager responsibilities	Equally responsibilities from the insertion of KRAs	The manager has no responsibilities apart from resource allocation
	Employee responsibilities	Passively accepts the KRAs, they have to achieve it accordingly	All responsibilities after once KRAs allocated
	Reducing manager biasness	Proper training is provided to raters for reduction of biasness	Moderation committee exists or explanations call could be done by HR for unjustified ratings

**RECOMMENDATIONS/SUGGESTIONS**

All banks either its public sector or private sector cases following objective based on KRAs based. Despite banks are pursuing the latest performance appraisal systems reflected by the above table. Still, there are many gaps in the expected outcome and actual outcomes. To bridge the gaps following are the suggestions:

- ✓ **Modification in Procedure of Setting Objectives:** All sample banks understudy, either its public sector or private sector sets objectives on PAN India basis. That leads to the absence of employee-centric KRA's. A very minuscule modification that employees' portal should be open for a bit longer after the complete evaluation process. So they can also put suggestions in their new KRA for avoiding complications at later stages.
- ✓ **Feedback Frequency & One on One interaction:** The feedback for the whole process occurs once in a year, which escorts piling-up all issues together. Due to several issues together, it is difficult for an employee to narrate as well manager for handling them. Regular meetings related to visiting KRAs can resolve this by one issue at a time. On the other hand, face to face interaction may reduce discrepancies in thought related to KRAs bring & more cohesiveness in employee and manager.
- ✓ **Biasness & Injustice reduction:** Formulation of biasness reduction committee like in one sample bank is a good initiative that should be followed by all banks. On the other, a standing committee should also be there to handle employee's issues at random.

**CONCLUSION**

Despite some minor loopholes, the current performance appraisal system followed by banks is suitable for all. Only after reconsidering the minor issues like Changes in procedure of objective setting, increase in feedback frequency, eliminate the lack of any feedback, defined authorities of managers for employees in appraisal responsibility and healthy discussions for further improvement in performances. These are some alteration that can make the current appraisal system more efficient. The current demand of banking sector ought to revisit all the deprived areas for allocation of suitable ratings to each individual. To boost employee morale and it can contribute to the organizational goal.

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