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Study of Performance Management System in Banking Sector

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Abstract: In an age of intense competition and globalization, organizations have recognized that the development of strategic HR practices can be an important way to gain an edge over their competitors. The aim of this research paper is to study the Performance Management System in Indian Banks, and also study the impact of Performance Management System on employee performance. The data was analyzed in order to test the impact of performance management system on employee attitude by using a SPSS package. The independent t-test and multiple regression were used to test the relationship and the results show that various stages of performance management system has a positive relationship with employee attitude.

Keywords: Human Resource, Performance Management System.

BACKGROUND

Recent times have seen a major change in the role of HR. This is mainly because its focus is on evolving and implementing diverse functional techniques that allow for better implementation of important business strategies. In fact, it may be said that HR and corporate strategies are better aligned with each other Costello (1994). In contemporary times, HR has enabled the construction and maintenance of an employee work environment that has helped improve the performance of employees while at the same time providing opportunities that involve them in the process of making major decisions and plans of the organization.

Currently, most HR activities encourage employee motivation and try to develop high performance leaders. Thus, it can be said that HR has evolved into a facilitator and an enabler from merely being an appraiser.

In an age of intense competition and globalization, organizations have recognized that the development of strategic HR practices can be an important way to gain an edge over their competitors (Bagga & Srivastava, 2014).

In order to streamline all employee activities and to attain the major goals of a corporation, a well-designed performance management system is crucial. This is because it is an important tool that aligns every major organizational function and sub function, thus directing all focus towards the ultimate attainment of the organizational goal.

Therefore, in order to augment the productivity and growth at the individual as well as the organizational level, a broad system such as Performance management is important as it is intricately connected to the processes of planning, implementation, review, and evaluation.

That is, a well-constructed performance management system enables, empowers, and facilitates the development of all employees by clearly defining individual as well as team based responsibilities and by promoting a better understanding of shared mutual accountability.

One of the toughest challenges faced by organizations today is the management of employee performances since it strictly depends on the employees' commitment and competence, as well as on the clarity of the their performances. However, a well-planned reward practice and feedback mechanism can help manage these and thus promote the performance management system as a crucial part of employee motivation and development. When the traditional performance appraisal system began to fail and its limitations began to be exposed, a need was felt for the introduction of a better and more streamlined system of performance management. This is because the traditional performance appraisal system lacked objectivity due to its vagueness in the diameters or parameters for measuring employee performances. Also, instead of behaviour or measurable targets, the focus of the earlier performance appraisal system was on traits.

As a result of this, there was a lack of a clear system of feedback and involvement of employees in the appraisal process due to which the morale of the employees as well as their motivation to work was severely affected. To overcome these drawbacks, a performance management system is useful since it is geared towards the future rather than the past contributions of the employees in order to evaluate their performances.

Although performance management has attracted some attention from diverse organizations, its importance in the near future can be predicted to grow since it will be intertwined with the processes of development management, talent, and career, as well as performance based pay.

PERFORMANCE MANAGEMENT

In an organizational, performance is generally defined as the extent to which an organizational member contributes to achieving the goals of the organization (Pfeffer, 1994). Performance management may be succinctly defined as a systematic process that helps in the improvement of the overall performance of an organization through the improvement of all individuals within the framework of a team (Arthur, 1994). Thus, it can be regarded as the means to promote the superior performance of an organization through the communication of expectations, by defining roles within a compulsory competence framework, as well as setting attainable benchmarks.

Performance management is a rational process which helps in improving the overall performance of organizations by improving individual performances within teams. It helps promote superior performance by defining roles within a required competence framework, communicating expectations, and setting up

tenable benchmarks. According to Robertson (2005), an effective communication climate is based on ob, personal, operational and strategic issue.

Armstrong and Baron (1998) argue that Performance management is a strategic as well as an integrated approach that delivers profitable results in organizations through the improvement of their performance and improves the capabilities of individuals and teams.

A performance management system comprises the following actions:

- The development of specific job descriptions and performance plans of employees like Key Result Areas (KRAs) and performance indicators.
- The selection of a specific set of people using a relevant selection process.
- The negotiation of performance standards and requirements in order to measure the outcome and total productivity against previously defined aims.
- The provision of constant coaching, help, and feedback during the phase of performance delivery.
- The identification of the development and training needs of employees by calculating the achievement of outcomes as per the standards set and the implementation of impactful development programs for improvement.
- The organization of quarterly performance development discussions and the evaluation of the performance of employees according to performance plans.
- The designing of impactful reward and compensation systems in order to provide recognition to employees who excel in their jobs by either achieving the standards set according to performance plans or by exceeding the necessary performance benchmarks.
- The provision of career development/promotional guidance and support to all employees.
- Promoting exit interviews for evaluating the reason of discontent among the employees and their subsequent exit from an organization.

Performance Management System Cycle

Fletcher (1996) suggested that the main building blocks of a performance management system approach include: development of the organization's mission and objectives; enhancing communication within the organization so that employees are not only aware of the objectives and the business plan, but can contribute to their formulation; clarifying individual responsibilities and accountabilities; defining and measuring individual performance; implementing appropriate reward strategies, and developing staff to improve performance, and their career progression further in the future.

A Handbook for Measuring Employee Performance defines performance management as the systematic process of:

- Setting expectations and **planning** work.
- Consistently **monitoring** performance.
- **Developing** the capability to perform
- Periodically summarizing and **rating** performance.
- **Rewarding** good performance.

In Planning stage supervisor must explain to the employees the direct link between their performances and the strategic goals of the organization (Campbell and Yeung, 1991). It is crucial for the supervisor to include the employees when constructing these strategic and operational plans and then, help the employees create their performance plans.

Monitoring is the ongoing stage of the appraisal period during which the supervisor is required to monitor employee progress. This is a crucial stage since it allows the supervisor to correct the course or make adjustments to the timeline (if needed) so that the employees can attain the desired goals for the agency or the work unit. Consistent monitoring also helps the supervisor inform employees of their progress, whether favourable or unacceptable. Moreover, if the supervisor evaluates that the employee is not performing favourably in any crucial element, monitoring employee performance enables an early identification of the problem and thus get an opportunity to improve performance prior to the rating of the record.

Continuous monitoring enables the supervisor to determine whether the employees require additional development in order to attain their assigned benchmarks. Additionally, employee development involves remediation as well as the enhancement of good performance through formal or informal training or mentoring. An effective performance evaluation system is vital phase of PMS, as it provides the data needed for various decisions which plays an important role in motivating people to utilize their abilities in pursuing the organization's goals (Musgrove&Creighton, 1973).

The supervisor uses the information garnered from the stage of monitoring during the period of appraisal and compares it with the employee's elements and standards and assigns a rating of record. Since the employee and the supervisor would have had multiple discussions over the rating period, the final rating will not be unexpected.

There should be significant distinctions when granting rewards to employees with performance levels that are excellent and above. Thus, award amounts should be markedly distinguished between different performance levels. Performance management should support compensation decisions. In this process, the main activities include evaluating employee's accomplishments and skills; discussing evaluation with employees (McAfee and Champagne, 1993). Rewards represent important mechanisms by which employee behaviors can be aligned with the interests of the organization (Eisenhardt, 1989).

In conclusion, a good Performance Management system can potentially raise the performance of the organization through that of its employees and improved individual employee performance could improve organizational performance as well.

RESEARCH METHODOLOGY

This paper aims to empirically investigate the impact of the different stages of performance management system on employee attitude in Banking Sector. To achieve these objectives primary data was collected using a questionnaire survey, both Government and Private Banks were targeted and questionnaires were distributed to the 100 employees, 50 from each category. This field survey took approximately six weeks. The majority of the employees were very busy hence survey was conducted in the form of interview which was indeed time-consuming for the researcher but easier for respondents and reliable. The reliability &

validity for the questionnaire was analysed. Around 40 employees' questionnaires were used to check the reliability of the questionnaire. The data were processed or entered into SPSS program version 20.0 and the data were analyzed to get the reliability coefficient of the questionnaires. Cronbach Alpha value arrived was 0.727 which indicated good reliability.

DATA ANALYSIS AND DISCUSSION

Respondents Profile

Table 1
Respondents profile

Type of Bank				
	<i>Frequency</i>	<i>Percent</i>	<i>Valid Percent</i>	<i>Cumulative Percent</i>
Government	47	47.0	47.0	40.0
Private	53	53.0	53.0	100.0
Gender				
Male	78	78.0	78.0	78.0
Female	22	22.0	22.0	100.0
Association with this Bank				
< 1 year	16	16.0	16.0	16.0
1- 4 years	22	22.0	22.0	38.0
5 - 9 years	28	28.0	28.0	66.0
10 years or over	34	34.0	34.0	100.0
Total Experience				
< 1 year	10	10.0	10.0	10.0
1- 4 years	40	40.0	40.0	50.0
5 - 9 years	30	30.0	30.0	80.0
10 years or over	20	20.0	20.0	100.0
Age				
Under 25	12	12.0	12.0	12.0
25 – 34	24	24.0	24.0	36.0
35-44	30	30.0	30.0	66.0
45 and above	34	34.0	34.0	100.0

Respondents profile shows 53% of respondents were from private banks. Majority of respondents (78%) were male. Around 38% of respondents were relatively young in their organization i.e. they were not more than 4 years old in their bank. However in terms of total experience 50% were having more than 5 years of experience. 36% respondents were below 34 years of age.

Descriptive Analysis

The descriptive analysis shows are mean value for the various statements under the various phases of performance management.

Table 2
Descriptive Statistics

<i>Statements</i>	<i>N</i>	<i>Min.</i>	<i>Max.</i>	<i>Mean</i>	<i>SD</i>
PLANNING and DEVELOPING					
There are clear work standards set by management to measure my performance.	100	1.00	5.00	3.85	1.29
We have well developed performance management plan.	100	2.00	5.00	4.23	1.16
My performance is measured against the agreed measurements set out in my performance agreement.	100	1.00	5.00	3.02	1.07
I participate in the setting of my performance goals.	100	1.00	5.00	3.85	1.09
I am clear about my role in the Organisation and how it fits into the Organisation annual performance plan.	100	3.00	5.00	4.35	.590
MANAGING and REVIEWING					
I am aware of my Organization's strategic objectives.	100	2.00	5.00	2.79	1.054
I have the clear understanding of my responsibilities and duties.	100	1.00	5.00	3.32	1.733
I understand that the performance management system contributes positively to improving my productivity.	100	1.00	5.00	3.32	.933
I received verbal and written feedback on positive aspects of my performance.	100	1.00	5.00	3.23	1.218
My line manager/senior discuss matters affecting my performance.	100	1.00	5.00	3.61	1.355
Poor performance is immediately confronted.	100	2.00	5.00	3.58	1.400
I have the necessary skills and competencies to perform my job.	100	1.00	5.00	3.14	1.540
I receive regular training in order to perform my duties.	100	1.00	5.00	3.38	1.217
Personal development plans are developed individually and not generically.	100	1.00	5.00	3.05	.971
The training and development offered develop me for the next level.	100	1.00	5.00	2.52	1.338
There are sufficient training and development opportunities available in my Organisation.	100	2.00	5.00	2.82	1.470
RATING AND REWARDING					
My line manager is having the required skills to manage my performance.	100	1.00	4.00	2.64	1.029
My manager provides me with constructive criticism during my review.	100	2.00	4.00	2.52	.980
Employees are fairly rewarded for their performance in my organisation.	100	1.00	4.00	3.29	.895
EMPLOYEE ATTITUDE					
My performance in my current role is above average.	100	1.00	5.00	3.45	1.233
I would be happy to spend the rest of my career with this organisation	100	1.00	5.00	3.01	1.098
I feel like "part of the family" at my organisation	100	2.00	5.00	3.12	1.252
I feel emotionally attached to this organisation.	100	1.00	4.00	3.10	1.019
I feel a strong sense of belonging to my organisation	100	2.00	4.00	2.90	.908
I am overall happy and satisfied in my organization.	100	1.00	4.00	3.12	.890
Valid N (listwise)	100				

Table 3
Independent Samples t-Test

<i>Variables</i>	<i>Mean (Public)</i>	<i>Mean (Private)</i>	<i>t-value</i>	<i>Sig. 2-tailed</i>
Planning and Developing	2.8000	3.5000	2.996	.005
Managing and Reviewing	3.8250	4.3000	2.929	.004
Rating and Rewarding	3.6250	4.2000	2.521	.014
Employee Attitude	3.5250	4.1000	2.029	.046

To understand the performance management system in the private and public banks, the respondents were asked to agree with the various statements under the different stages of performance management. The Mean value in Table 2 clearly shows that bank employees find that management has set clear work standards to measure their performance. They have well developed performance management plan and their performance is measured against the agreed measurements criteria. Because of which employees are clear about their role in the organisation and how it fits into the Organisation annual performance plan. The result of the Table 3 shows that there is a significant difference among Public and Private banks on ‘Planning and Development’ phase of the performance management.

Most of the respondents feel that they are not much aware of their Organization’s strategic objectives, however they have the clear understanding of their responsibilities and duties. Also, they understand that the performance management system contributes positively in improving their productivity and they received verbal and written feedback on positive aspects of their performance. Their line manager/senior discuss matters affecting employees performance and their poor performance is immediately confronted. They also feel that they have required skills & competencies and receive regular training in order to perform their duties. It is evident from the results that they agree that their organization develop individual development plans and not generic for all, however they don’t agree that the training and development offered to them develop them for next level and also there don’t find training and development sufficient. The result of the Table 3 shows that there is a significant difference among Public and Private banks on ‘Managing and Reviewing’ phase of the performance management.

On the ‘Rating and Rewarding’ phase of performance management, employees don’t agree that their line manager are having the required skills to manage their performance and they provides constructive criticism during the performance review. Yet they find employees are fairly rewarded for their performance. The result of the Table 3 again shows that there is a significant difference among Public and Private banks on ‘Planning and Development’ phase of the performance management.

To examine the relationship between various stages of Performance management System (Planning and developing, Managing and reviewing, rating and rewarding) and Employee attitude, Multiple Regression analyses were conducted.

The multiple regression model with all three predictors produced adjusted $R^2 = .749$, which shows that there is 74.9% of impact of independent variables on dependent variables, i.e. Planning and Developing, Managing and Reviewing and Rating and rewarding all these three phases Performance Management System positively impact the employee attitude.

Table 4
Model Summary

<i>Model</i>	<i>R</i>	<i>R Square</i>	<i>Adjusted R Square</i>	<i>Std. Error of the Estimate</i>
1	.823 ^a	.753	.749	.48632

a. Predictors: (Constant), Planning and developing, Managing and reviewing, rating and rewarding

Table 5
ANOVA^a

<i>Model</i>		<i>Sum of Squares</i>	<i>df</i>	<i>Mean Square</i>	<i>F</i>	<i>Sig.</i>
1	Regression	180.545	3	60.182	245.449	.000 ^b
	Residual	31.219	132	.237		
	Total	211.765	135			

a. Dependent Variable: Employee Attitude.

b. Predictors: (Constant), Planning and developing, Managing and reviewing, rating and rewarding

Table 6
Coefficients^a

<i>Model</i>		<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>		<i>Sig.</i>
		<i>B</i>	<i>Std. Error</i>	<i>Beta</i>	<i>t</i>	
1	(Constant)	4.275	.166		25.754	.000
	Planning and Developing	.688	.028	.847	24.168	.000
	Managing and Reviewing	.331	.046	.257	7.138	.000
	Rating and rewarding	.118	.035	.126	3.392	.001

a. Dependent Variable: : Employee Attitude

CONCLUSION

The main objective of performance management is to improve the performance of employees. Performance Management System enhances employee performance by assessing the performance of employees and recognizing the strengths and weaknesses of individual employees in order to enable the formulation of the appropriate training and development programs. This is a continuous proactive mechanism aims at managing performance in a way that ensures that every employee attains the set targets in the allotted time frame without corrective actions or reviews in the vague future. It is thus, a line activity and is incorporated in an employee's daily work. It is noticeably clear that performance management is very vital and significant for an organization to improve employee attitude and performance. This study supports the belief of many others researchers about the relationship between performance management system and employee attitude. The results clearly reveals that Planning and Developing, Managing and Reviewing and Rating and rewarding positively impact the employee attitude.

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