Indian Bank’s Employees Perception towards Performance appraisal: A Comparative Study

Vikas Mahalawat¹, Dr. Bharti Sharma²
Research Scholar, SGV University, Jaipur¹,
Associate Professor, St. Wilfred’s Institute of Management & Technology, Jaipur²

Abstract—Performance appraisal is the most important human resource practices and an inseparable part of every organization; however this practice is continuously generating dissatisfaction among employees and is viewed as unfair and less effective. Indian banking sector is one of the biggest and fastest growing financial service sectors. Arrival of new private and foreign banks in recent years has given a cause to public sector banks to become more competitive, effective and innovative in their approach. By Past researches public and private sector banks have been compared and have indicated that new private sector banks are outscoring public sector banks in terms of technical and economic efficiency parameters. However, no study could be found that compared public and private banks in India on fairness perceptions of performance appraisal system. Therefore, in this research, we studied the differences between public and private sector banks with respect to perception of fairness of the performance appraisal system and satisfaction regarding performance appraisal. We studied Perception of fairness of the performance appraisal system through nine factors. In this study, we used independent samples t-test (qualitative analysis) to study the mean differences between the two banks. Results showed that private sector bank employees perceive greater fairness and satisfaction with their performance appraisal system as compared to public sector bank employees.

Keywords: perception of fairness; performance appraisal; public and private sector bank

INTRODUCTION

Performance appraisal is one of the most important human resource (HR) practice, administered in organizations by which supervisors evaluate the performance of subordinates. Organizations use appraisal ratings to take decisions regarding pay and promotion, identify training and development needs and motivate employees [10]. Performance appraisal is one of the most widely researched topics in industrial/organizational psychology [29]. However, in spite of the attention and resources paid to the practice, it continues to generate extreme dissatisfaction among employees and employers alike and is often viewed as inaccurate, unfair, and political [11],[31],[34]. In their review of performance appraisal, [7] indicated that perceived fairness of the appraisal system has emerged as the most important issue to be faced by managers. Concerns about perceptions of fairness of appraisal arise from the evaluation of the outcomes received (distributive fairness), the procedures used to allocate those outcomes (procedural fairness), and the way in which the decision-making procedures are communicated by the authority [35]. Distributive fairness, procedural fairness, and interpersonal fairness are integral components of ‘organizational justice,’ which may be defined as the study of fairness at work [8]. Perception of fairness holds an important place in organizations as it prevents negative consequences like theft, sabotage, withdrawal, and other disruptive behaviors and enhances positive outcomes like citizenship behavior, organizational commitment, and job satisfaction [1], [27]. For this study, we have used Greenberg’s conceptualization of organizational justice, in which he crosscut two types of justice dimensions (procedural and distributive) with two determinants of justice (social and structural). It resulted in four-factor structure of justice (systemic, configural, interpersonal, and informational). The success and effectiveness of any appraisal system largely depends on the reaction of employees to important aspects of the appraisal process [5], [9]. It is now a widely accepted fact that perceptions of fairness influence the way people think, feel, and act on the job [6].

Employee performance appraisal is an indispensable part of every organization including banks in India. Indian banking sector is one of the oldest, biggest, and fastest growing financial service sectors which has seen tremendous progress after liberalization. Arrival of new banks, vigorous growth of domestic economy, rapid growth of the Indian corporate sector, technological deployments, and rising household incomes are some of the factors contributing to its growth. Making international presence, attracting and retaining talents, and overhaul of HR practices are some of the challenges being faced by banks in India. In India, banking system can be broadly categorized into scheduled and non-scheduled commercial banks. Scheduled commercial banks can be further classified into public and private sector banks (old and new) and foreign banks. Over a period of time, differences have been observed between public and private sector banks on various parameters.

Differences between public and private sector banks

Public and private sector banks differ from each other in terms of operations, structure and efficiency. The public
sector banks are largely regulated by the government, whereas the private sector banks are regulated by the private bodies. Structurally, public sector banks have a wide network of branches largely concentrated in the rural and semi-urban areas whereas private sector banks are mainly concentrated in urban and metropolitan areas. Public and private sector banks differ with respect to their background and work culture. It has been observed that the work culture of public sector banks was based on the socioeconomic responsibility concept, in which profitability was secondary. They were and are still involved in variety of non-profit social sector welfare activities. On the other hand, private sector banks work toward profitability [4].

Because of the government-owned institutions, public sector banks have to operate under constraints which affect their efficiency. For instance, their staff quality suffers as they can neither lay off poorly performing employees nor can offer high salaries to attract talent in the industry. Private banks (especially, the new private sector banks) on the other hand have grown aggressively by using highly competitive and innovative strategies, especially with their strong emphasis on information technology (IT). As a result, private sector banks have made considerable progress in a very short span of time. It is found that organizational climate (OC) of new private sector banks and foreign banks in India was perceived as significantly better vis-a-vis public sector banks[20].

Recent SWOT analysis of private banks [33] exposed that new private sector banks are different from the traditional banks (public sector banks and old private sector banks) and their strength lies in the following areas:

1. Most of the branches of private sector banks are fully computerized and support core banking solutions.
2. Private sector banks support an efficient payment system.
3. In contrast to their public sector counterpart parts, operational efficiency is maintained at their highest level, because private sector banks provide a smooth working environment to their employees.
4. Private sector banks do not have bureaucratic environment and therefore, enjoy a high level of autonomy, which facilitates faster decision making.
5. With higher automation to their work, private sector banks are better at innovating new customized products and services and thus are high on customer satisfaction.
6. Private sector banks have more responsive organizational structure as compared to public sector banks which leads to better resolution of customer problems.
7. With full computerization, private sector banks offer cost-effective services such as automated teller machines, electronic fund transfer, Internet banking with much ease.

In a study, it is highlighted that there is a clear division between the performance of attackers (new private and foreign banks) and incumbents (public sector and old private sector banks) [28]. It specifies that in between 2000 and 2007, attackers have increased assets from 12 to 26%, profits from 21 to 32%, and market capitalization from 37 to 49%. Apart from this, the study speculates that attackers also excel in corporate leadership, marketing and sales, distribution efficiency, IT, credit policy, and skills as compared to incumbents [28].

Organization’s success depends on the productivity of its employees. Thus, employee productivity becomes an important yardstick for measuring organization’s performance. In one such study, [20] compared the employee productivity (business per employee and profit per employee) and employee cost ratios (employee cost to total business, employee cost to total assets, and employee cost to operating expenses) between the traditional banks (public sector and old private sector banks) and modern banks (foreign and new private sector banks) from 1997 to 2008. The results indicated that the performance of the modern banks (foreign and new private sector banks) has been much superior than the traditional banks (public sector and old private sector banks) [21].

Moreover, differences have been observed with respect to performance appraisal practice. New private banks are introducing newer approaches to regulate and measure their employees’ performance. Appraisal mechanisms like, 360-degree feedback and balanced score card (BSC) are being implemented in new private sector banks, whereas most of the public sector banks are still adhering to the traditional and highly confidential way of doing appraisals [18]. Apart from that, in public sector banks performance appraisals are not linked with pay and promotion decisions and thus are not perceived as motivating by employees. It has been regarded as one of the main reason behind maximum dissatisfaction among employees [31].

Therefore, the main objective of the study was:

- To study the differences between public and private sector banks with respect to perception of fairness of the performance appraisal system and employees’ satisfaction with performance appraisals.

Further, it is hypothesized that:

**Hypothesis 1:** Employees’ perception of fairness of the nine factors of their appraisal system would be significantly different between the two banks. Since different banks follow different approaches toward the appraisal, it is further assumed that employees’ affective reactions would also be different in public and private sector banks. Hence, it is also hypothesized that:

**Hypothesis 2:** Employees’ satisfaction with the performance appraisal system would be significantly different between public and private sector banks.

Perception of fairness of the appraisal system has been defined by the following nine factors [37]

1. **Setting performance expectations:** It refers to the importance of setting performance expectations at the beginning of the performance period. It captures the nature of performance criteria; their relevance and flexibility.
2. **Rater confidence:** It refers to rater’s level of knowledge about the performance appraisal system, ratee’s job, and performance levels.
3. **Clarifying expectations:** It refers to raters clarifying performance expectations and the evaluative standards to the ratees before and during appraisal.
4. **Providing feedback:** It refers to the raters’ ability to provide clear, timely, frequent, and constructive feedback to their subordinates.
5. **Accuracy of ratings**: It talks about the appropriateness of the ratings which is based on employee’s efforts, abilities, and quality and quantity of his/her performance.

6. **Explaining rating decisions**: It refers to the raters’ ability to explain rating decisions to the rates clearly and effectively. It also involves raters explaining to employees about bringing performance improvement.

7. **Seeking appeals**: It refers to the extent of freedom given to employees to challenge performance ratings and to express feelings, especially of discomfort.

8. **Concern over ratings**: It refers to the concern that ratings should be a true reflection of employee’s performance that ought to be based on employee’s effort and contributions rather than on his/her personality.

9. **Treatment by rater**: It refers to the quality of interpersonal treatment received by the rates from their supervisor/s. It conveys the importance of sensitivity, dignity, and respect in supervision.

The satisfaction with the appraisal system has been defined as the positive affective reactions of employees toward the performance appraisal system.

**RESEARCH METHODOLOGY**

**Samples**
The data were collected from two banks belonging to private sector (Bank X) and a public sector (Bank Y), respectively. Purposive sampling method was used to select different banks with different performance appraisal practices. Other public and private sector banks were also approached for the purpose of data collection; however, final selection of the banks was made on the basis of the permission granted by the banks to collect information and data. The two banks selected for the study are the leading banks in their respective sectors. Both the banks have their head offices in India with multiple branches spread across the globe.

**Participants in the study**
The sample consisted of a total of 340 bank employees from both public and private sector banks situated in India. All the bank employees were serving at the middle-level management. The middle managers were chosen as they are the front-line managers having good exposure of Bank and its policies and practices. There were 230 bank employees from a public sector bank; with the majority being male (73.04%). Mostly, the sample was between the ages of 40 and 50 years (41.07%), with 39.8% between 25 and 40 years, and 19.04% between 50 and 60 years. The average age was 42.7 years and average tenure was 16.9 years. From a private sector bank, 110 bank employees participated with the majority being male (70.09%). Mostly, the sample was between the ages of 25 and 40 years (82.05%), with 17.9% between 40 and 50 years. The average age was 34.89 years and average tenure was 11.02 years.

**Procedure**
Information on performance appraisal practice was collected by interviewing the senior HR managers of both the banks in the first phase. To structure interview, questions were divided into four broad categories [7]

1. System design and characteristic
2. System management
3. Important appraisal uses
4. Performance distribution.

‘System design and characteristics’ dimension includes issues such as appraisal construction and development, appraisal approach and format, raters, and rating sources, and performance criteria. ‘System management’ dimension is concerned about appraisal frequency, appraisal-related decision making, rater training and rater accountability. Appraisal use includes concerns about developmental and administrative uses of appraisals, whereas ‘performance distribution’ talks about differentiating employee performance into certain levels. However, managers were free to provide any extra information about appraisals. Information collected has been provided in Table 1.

The second phase of the study involved distributing questionnaires to the bank employees (middle-level managers). For this purpose, 18 branches of the public sector Bank and 10 branches of the private sector bank were visited. Employees were personally approached and given the questionnaire. In many cases, respondents were called in the conference room and briefed about the study and were requested to fill the questionnaire and confidentiality was assured. In total, 360 questionnaires were distributed; out of which 340 could be utilized as 20 questionnaires that were half filled. The response rate came out to be 94.44%. This study also used an open-ended questionnaire method in which participants were free to respond the way they wanted to. Employees were asked, ‘how do they perceive their performance appraisal system in the current organization.’ For this purpose, 42 middle-level managers from public sector and 20 middle-level managers from private sector bank participated in the study. This group of participants was not given standardized questionnaires earlier in this study. The questionnaires were personally distributed to and collected from the managers from different branches of the respective banks.

**Measurement**
Nine dimensions of performance appraisal fairness were measured by a 56-item scale. The scale was originally developed by Thurston, which was later amended by Walsh in her study, e.g. ‘respect in supervision’ and ‘sensitivity in supervision’ dimensions from Thurston’s scale was clubbed to form ‘treatment by rater.’ This study used the same version [38] with little adaptations to suit the Indian context, like, the term ‘performance planning and review (PPR) system’ was replaced with performance appraisal system. All the items were modified to fit into the 5-point Likert scale format (1 = strongly disagree and 5 = strongly agree). Item no. 45 and 46 were reverse coded.

**TABLE 1: Differences in performance appraisal system of the public and private sector banks**

<table>
<thead>
<tr>
<th>Performance Appraisal System: features</th>
<th>Private Sector Bank (X)</th>
<th>Public Sector Bank (Y)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal Design/Format</td>
<td>BSC Online system</td>
<td>ACR Management based approach (MBO)</td>
</tr>
<tr>
<td>Frequency</td>
<td>Biannually</td>
<td>Annually</td>
</tr>
</tbody>
</table>

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Cronbach’s alpha for each dimension was as follows, setting expectations = 0.94, rater’s confidence = 0.94, clarifying expectations = 0.93, providing feedback = 0.92, accuracy of rating = 0.91, explaining rating decision = 0.91, seeking appeals = 0.87 concern over rating = 0.75, and treatment by rater = 0.89.

Performance appraisal system satisfaction was measured by the items modified from scales by [36]. Seven items have been taken for this study. Items 4 and 5 are reverse coded. It is a 5-point rating scale with 5 = strongly agree; 4 = agree; 3 = neither agree nor disagree; 2 = disagree; and, 1 = strongly disagree. Cronbach’s alpha of this scale is 0.85.

**RESULTS**

**Quantitative analysis: independent samples t-test**

An independent sample t-test was computed to test the mean differences in the nine factors depicting employees’ perception of fairness of performance appraisal and performance appraisal satisfaction of the two banks under study. The findings indicate that there is a significant mean difference between the two groups with respect to most of the variables. Levene’s test has been used to assess the equality of variance in different samples. The resulting p-value of Levene’s test in most of the cases is less than critical value (i.e. 0.05) indicating that there is a difference between the variances in the population. Significant differences were observed between the two groups with respect to most of the fairness dimensions (seven out of nine). Results in Tables 2 and 3 indicate that private sector bank employees (i.e. Bank X, N = 110) perceive their expectations to be better set (MX = 25.26, MY = 20.21, t = 18.746, p < 0.001) and explained (MX = 24.8, MY = 18.3, t = 20.17, p < 0.001), rate their raters to be more knowledgeable (MX = 19.1, MY = 15.3, t = 13.185, p < 0.001), find feedback procedure to be more robust (MX = 15.0, MY = 12.9, t = 6.241, p < 0.001), ratings to be more accurate (MX = 18.4, MY = 16.13, t = 5.065, p < 0.001) and well explained (MX = 19.1, MY = 15.1, t = 41.74, p < 0.001), and feel more positive about the appeal system (MX = 24.5, MY = 14.2, t = 12.925, p < 0.001) as compared to public sector bank employees (Bank Y, N = 230). No difference could be found for the dimension treatment by rater and concern over rating indicating that employees of both the banks hold more or less similar perceptions about these two dimensions. The results also indicated that private sector bank employees (Bank X, N = 110) expressed significantly more satisfaction with performance appraisal than public sector bank employees (MX = 26.8, MY = 21.9, t = 18.61, p < 0.001). The quantitative results indicated that both the hypotheses have been accepted.

**TABLE II: Two groups mean difference**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Group</th>
<th>N</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Standard error mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Setting Expectations</td>
<td>Bank X</td>
<td>110</td>
<td>25.26</td>
<td>20.21</td>
<td>2.35</td>
</tr>
<tr>
<td></td>
<td>Bank Y</td>
<td>230</td>
<td>14.20</td>
<td>22.99</td>
<td>2.61</td>
</tr>
<tr>
<td>Rater’s Confidence</td>
<td>Bank X</td>
<td>110</td>
<td>19.13</td>
<td>15.13</td>
<td>1.74</td>
</tr>
<tr>
<td></td>
<td>Bank Y</td>
<td>230</td>
<td>15.33</td>
<td>15.33</td>
<td>1.74</td>
</tr>
<tr>
<td>Clarifying expectations</td>
<td>Bank X</td>
<td>110</td>
<td>24.84</td>
<td>18.03</td>
<td>2.26</td>
</tr>
<tr>
<td></td>
<td>Bank Y</td>
<td>230</td>
<td>21.81</td>
<td>22.12</td>
<td>2.61</td>
</tr>
<tr>
<td>Providing feedback</td>
<td>Bank X</td>
<td>110</td>
<td>15.05</td>
<td>12.99</td>
<td>2.61</td>
</tr>
<tr>
<td></td>
<td>Bank Y</td>
<td>230</td>
<td>12.76</td>
<td>12.76</td>
<td>3.30</td>
</tr>
<tr>
<td>Accuracy of rating</td>
<td>Bank X</td>
<td>110</td>
<td>18.44</td>
<td>16.13</td>
<td>3.95</td>
</tr>
<tr>
<td></td>
<td>Bank Y</td>
<td>230</td>
<td>21.81</td>
<td>22.12</td>
<td>3.95</td>
</tr>
<tr>
<td>Explaining rating decisions</td>
<td>Bank X</td>
<td>110</td>
<td>19.14</td>
<td>15.16</td>
<td>2.07</td>
</tr>
<tr>
<td></td>
<td>Bank Y</td>
<td>230</td>
<td>15.16</td>
<td>15.16</td>
<td>2.07</td>
</tr>
<tr>
<td>Concern over rating</td>
<td>Bank X</td>
<td>110</td>
<td>21.81</td>
<td>22.32</td>
<td>2.61</td>
</tr>
<tr>
<td></td>
<td>Bank Y</td>
<td>230</td>
<td>21.81</td>
<td>22.32</td>
<td>2.61</td>
</tr>
<tr>
<td>Seeking appeals</td>
<td>Bank X</td>
<td>110</td>
<td>24.53</td>
<td>14.20</td>
<td>1.87</td>
</tr>
<tr>
<td></td>
<td>Bank Y</td>
<td>230</td>
<td>21.89</td>
<td>22.12</td>
<td>2.61</td>
</tr>
<tr>
<td>Treatment by rater</td>
<td>Bank X</td>
<td>110</td>
<td>35.98</td>
<td>35.68</td>
<td>5.39</td>
</tr>
<tr>
<td></td>
<td>Bank Y</td>
<td>230</td>
<td>35.68</td>
<td>35.68</td>
<td>5.39</td>
</tr>
<tr>
<td>Performance appraisal satisfaction</td>
<td>Bank X</td>
<td>110</td>
<td>26.95</td>
<td>21.89</td>
<td>2.16</td>
</tr>
<tr>
<td></td>
<td>Bank Y</td>
<td>230</td>
<td>21.89</td>
<td>21.89</td>
<td>2.68</td>
</tr>
</tbody>
</table>
The two banks differ from each other with respect to perception of performance appraisal fairness. Seven out of nine appraisal fairness factors emerged as important differentiators; it was found that private sector bank employees perceive appraisal factors setting performance expectations, rater’s confidence, clarifying expectations, accuracy of rating, providing feedback, explaining rating decisions, and seeking appeal to be fairer as compared to public sector bank employees. The private bank employees are more satisfied with their appraisal system as compared to the public sector bank employees.

Drawing from the above findings, it is suggested that there is an urgent need to redesign the appraisal system in public sector bank. Changes in design/appraisal format such as introduction of 360-degree feedback, BSC, or online appraisal can be given a thought. More importantly, implementation of appraisal should be improved. Improvements can be carried about by providing training to the raters regarding conductance of fair appraisal by making them realize the importance of setting clear-cut goals, giving accurate ratings, and providing clear and constructive feedback to the ratees. Moreover, public sector bank should attempt to build up strong appeal system to bring in more transparency. The main purpose of appraisal should go beyond ‘measurement’ and should be oriented towards ‘developing and motivating employees.’ Performance appraisal should be better used as a need-assessment tool that may identify the developmental needs of employees and may channelize organizations’ and employees’ energy toward achieving them. Moreover, appraisal should not be taken lightly as it can be used as a strategic tool that integrates individual goals with that of organizations’. Also, it is recommended that the bank should employ a systematic approach to routinely collect employee reaction data after appraisal. Private sector bank may also bring in more fairness by training its raters to minimize appraisal-related politics. Moreover, post-appraisal counseling sessions may be introduced to reduce appraisal-related anxieties of the employees.

**LIMITATIONS OF STUDY**
The data collection was restricted to only two banks. It is suggested that in order to generalize the findings to the banking industry in India, the study should be expanded to include other private and public sector banks along with foreign and cooperative banks.

**REFERENCES**


