Performance Management System in Measuring Employees' Performance- A Comparative Study in Selected Banks

*Savita Nanda

Organization is the collection of individuals, which is run and steered by them. The performance of an organization is thus directly proportional to the sum total performance and efforts of its employees. Business results are based on the performance of the employees getting involved in the process. Hence it is essential for the organizations to measure the performance of its employees continuously for the organizational success. Banks are no exception to this. In the paper an attempt is made to better understand rater's behaviour in the form of inflated and deflated rating while using Performance Management System by studying the behaviour of raters in banking sector. In the analysis, mean, standard deviation, t-test are used. To know the rating behaviour of respondents, mean rank was calculated and Kruskal Wallis test was used. Findings reveal that raters that operate in these systems have a tendency to manipulate performance ratings in the best interest of organization and employees. It is time now for the raters to move ahead and use the right drive to exercise the right rating. The overall ratings will then contribute towards fair and consistent assessment of employees and the organization.

Introduction

Performance Management System is a set of techniques and procedures for improving organizational performance and achieving organizational success. It plays an important role in identifying the training and developments needs of the people and focus on their continous development and helps organisation to achieve competitive advantage.

Performance Management System-Conceptual Pramework

R. Lansbury (1988) is of the view that Performance Management is the process of identifying, evaluating and developing the work performance of employees in the organization, so that organizational goals and objectives are most effectively achieved, while at the same time benefiting employees in terms of recognition, receiving feedback, catering for work needs and offering career guidance.

Manuel Mendonca and R.N. Kanungo (1990) say that Performance Management refers to the process of setting and communicating performance targets, defining evaluative criteria to be employed at different levels of performance, monitoring performance, reviewing performance, providing feedback, and also taking corrective measures to remove performance snags.

Sims (1992) observes the following challenges regarding future implications of ethics in Performance Management and Performance Management System:

- > the challenge of international competition.
- > the challenge of increased quality.
- > the challenge of employee motivation and commitment.
- the challenge of ethical behaviour.
- the challenge of new technology

Varca and Valutis (1993) find that others' unethical behaviour worsens the performance of the highly skilled employees by as much as 25 per cent and hence makes performance management system ineffective. Therefore, developing codes of ethics is not enough, it is important right in the beginning to sensitize employees to ethical considerations and thus minimize the chances of unethical behaviour.

Dumond (1994) supports the view that the main reason for setting up a Performance Management System is the objective of becoming better. He further considers that performance measures are to be established to support the achievement of goals with the intent to motivate, guide, and improve an individual's decision making.

^{*}Research Fellow, University Business School, Panjab University, Chandigarh.

Armstrong and Baron (2004) identify that performance management system helps in integrating performance management process with other critical organizational systems including leadership development, succession planning, and talent management efforts. Being an organization integrated improvement process, the system identifies specific areas of improvement and building strong linkage with the existing processes of the organization, performance management inputs, processes, outputs, and outcomes.

J.M. Kamensky (2006) observes that to have successful performance management system, it is essential to ensure that it builds competency based development plans, strong links between performance measures and programme results, transparent performance information, effective multi-source feedback mechanisms to discuss and address performance issues.

Today's business environment requires organizations to be fast, focused and adaptable to survive. The emphasis has been shifting from 'command and control system' towards a 'commitment-based system'. This change is a reflection of the growing importance of employees and their performance to the achievement of objectives and follow up strategy of organizations.

Objectives and Scope of The Study

The objectives of the present study are:

- (a) To study involvement of employees in Performance Management System in Banking sector.
- (b) To assess the Performance Management System by analyzing the rater's behaviour in banks under study.
- (c) To give suggestions and recommendations for both, the organization and the raters, engaged in appraisal in the Performance Management System so that raters can move ahead and use the right drive to exercise the right rating.

Research Methodology

Survey method was used to conduct the study. Stratified random sampling was used to select

raters in SBI and ICICI Banks. To accomplish the aforesaid objectives, the data for this study was collected through self administered questionnaire. The questionnaire constructed by the researcher contained four major groups of questions.

- 1) Involvement in actions relating to Performance Management System in SBI and ICICI bank
- 2) Rating behaviour while performance appraisals
- 3) Comparative study of rater's behaviour on the basis of functional area in ICICI bank and SBI
- 4) Open ended questions: One question was asked, whether they had rater's training for performance appraisal and when it was given. Further two Open- ended questions were constructed to get an overview of the factors which are hindering fair performance appraisal and to give suggestions to remove such hindrances respectively.

For analysis, mean, standard deviation and t-test were used to compare the rating behaviour in ICICI and SBI banks. Ranking method was used to find the preference of rating behaviour. Mann Whitney and Kruskal Walis non parametric tests were used to find out the rating behaviour as per the functional areas of the bank's employees.

Results

In the study, a total of 100 raters from the banks in Chandigarh had been approached, from whom 80 correctly filled questionnaires. Table 1 represents a profile of respondents who had participated in this research study.

Table 1: Distribution of Respondents between Two Banks

Gender	Banks							
	ICICI	SBI	Total					
Male	14(35%)	18(45%)	32(40%)					
Female	26(65%)	22(55%)	48(60%)					
Total	40	40	80					

Distribution of respondents of ICICI bank and SBI bank was done on the basis of functional areas in the following manner:

Table 2: Distribution of Respondents

<u> </u>								
Areas	Ban							
	ICICI	SBI	Total					
Administrative	4(10%)	0(0%)	4(5%)					
Banking	6(15%)	0(0%)	6(7.5%)					
Finance	16(40%)	10(25%)	26(32.5%)					
HR	4(10%)	11(27.7%)	15(18.5%)					
Marketing	6(15%)	5(12.5%)	11(13.8%)					
Operational	4(10%)	7(17.5%)	11(13.8%)					
Securities	0(0%)	7(17.5%)	7(8.8%)					
Total	40	40	80					

Table 2 discloses that the respondents in both the banks are from different functional areas i.e. administrative, banking, finance, Human Resource Management, marketing, operational functions and securities management areas. In ICICI bank maximum 16 (40%) respondents are from finance area and in SBI maximum 11 (27.7%) respondents are from Human Resource Management area.

The results of the study are discussed under four major sections:

1) Involvement in actions relating to Performance Management System.

- 2) Rating Behaviour while Performance Appraisal
- 3) Comparison of rating bahaviour while performance appraisal between two banks
- 4) Rating Behaviour- Comparison on the basis of functional area

1) Involvement in actions relating to Performance Management System

The analysis of the data regarding their involvement in actions relating to Performance Management System are entered in Table 3.

Table 3 depicts the Involvement in actions relating to ethical issues in performance appraisals in both the banks. Each statement was asked on 4 points scale (process not done, partially involved, hardly involved and driver of the process). Mean difference was found significant at 5% significance level for 3 statements (promoting on ethical culture relating to performance appraisals, communicating report on ethical issues relating to performance appraisals internally and communicating report on ethical issues relating to performance appraisals externally). Mean value of SBI bank was found to be more than the mean value of ICICI bank for all the above stated three statements. So it was inferred that SBI bank's employees are more involved in actions relating to ethical issues relating to ICICI bank.

Table 3: Involvement in actions relating Performance Management System

Involvement				Std.			
Statement	Bank	N	Mean	Deviation	t	df	P value
Promoting on ethical culture							
relating to performance appraisals	ICICI	40	2.05	0.60	-5.568	78	0.000*
	SBI	40	2.80	0.61			
Implementing and ensuring							
good ethical practices							
regarding performance appraisals	ICICI	40	2.70	0.72	-1.493	78	0.140
	SBI	40	2.90	0.44			
Communicating report on							
ethical issues relating to							
performance appraisals internally	ICICI	40	2.05	0.39	-8.025	78	0.000*
	SBI	40	2.90	0.55			
Communicating report on							
ethical issues relating to							
performance appraisals externally	ICICI	40	2.00	0.45	-5.687	78	0.000*
SBI	40	2.78	0.73				
			· ·			I	

^{*}significant at .05 level

Rating Behaviour while Performance Appraisal

To understand raters' behaviour in the banks under study, it was essential to take dimensions of unethical issues (inflated rating, deflated rating). The rating behaviour is tabulated as follows:

On the basis of five point Likert's scale (Always, very often, sometimes, rarely, and never), Table 4 shows the results for the rating behavior of employees in both the banks. It was cleared that the mean of the statement "maximize the merit pay increase "was minimum (1.89) with 1st rank

so was the 1st preference while rating. Further, the statement "To minimize merit pay increase" was having the maximum mean with 13th rank, which denoted that it was the least preference for rating while performance appraisal.

Comparison of rating bahaviour while performance appraisal between two banks

To compare the rating behaviour of raters in ICICI bank and SBI, mean, standard deviation and t-test were used.

Table 4: Rating Behaviour while Performance Appraisal

Rater's Behaviour	Mean	Rank
As a rater, I practise Inflated rating (if situation arises)	2.15	R3
Deflated rating (if situation arises)	3.18	R10
As a rater, I generally assign inflated/ deflated rating while performance appraisals so as to		
Keep the employees motivated	2.33	R4
Maximize the merit pay increase	1.89	R1
Avoid creating a permanent record that might damage the employee's career Good recent performance	2.53 2.96	R6 R9
Assist an employee with a personal problem Liking for the subordinate personally	2.09 2.48	R2 R5
Avoid conflict with a subordinate	2.81	R8
Scare better performance out of an employee to prevent eventual termination Build a stronger case against an employee who is destined to be terminated	2.61 3.21	R7 R11
To minimize merit pay increase To comply with an organization edict to keep rating low.	3.53 3.49	R13 R12

Table 5: Comparison of rating bahaviour while performance appraisal between two banks

Rater's Bahaviour	Bank	N	Mean	Std. Dev	t	df	P value
As a rater, I practise	ICICI	40	2.30	0.85	1.275	78	.206
Inflated rating (if situation arises)	SBI	40	2.00	1.22			
Deflated rating (if situation arises)	ICICI	40	3.20	0.88	.189	78	.851
	SBI	40	3.15	1.42			
Keep the employees motivated	ICICI	40	2.75	0.90	4.892	78	.000*
	SBI	40	1.90	0.63			
Maximize the merit pay increase	ICICI	40	2.00	0.96	1.055	78	.295
	SBI	40	1.78	0.95			
Avoid creating a permanent record that	ICICI	40	2.65	1.33	.779	78	.438
might damage the employee's career	SBI	40	2.40	1.53			

Good recent performance	ICICI	40	3.30	1.57	1.807	78	.075
	SBI	40	2.63	1.76			
Assist an employee with a personal problem	ICICI	40	2.10	0.90	.155	78	.877
	SBI	40	2.08	0.47			
Liking for the subordinate personally	ICICI	40	2.50	0.93	.233	78	.816
	SBI	40	2.45	0.99			
Avoid conflict with a subordinate	ICICI	40	2.70	0.97	892	78	.375
	SBI	40	2.93	1.27			
Scare better performance out of an employee	ICICI	40	2.50	0.88	840	78	.404
to prevent eventual termination	SBI	40	2.73	1.45			
Build a stronger case against an employee	ICICI	40	3.85	1.21	4.184	78	.000*
who is destined to be terminated	SBI	40	2.58	1.50			
To minimize merit pay increase	ICICI	40	3.65	1.03	.922	78	.359
	SBI	40	3.40	1.37			
To comply with an organization edict to	ICICI	40	3.30	1.07	-1.313	78	.193
keep rating low	SBI	40	3.68	1.46			

significant at .05 level

Table 5 showed that mean difference was found significant at 5% level for two statements only i.e. raters generally assign inflated/deflated rating while performance appraisal so as a) to keep the employees motivated and b) build a strong case against an employee to prevent eventual termination. Mean value of ICICI bank for the statement, raters generally assign inflated/deflated rating while performance appraisal so as a) to keep the employees motivated(2.75) was maximum and b)

build a strong case against an employee to prevent eventual termination(3.85) was maximum. So it was concluded that ICICI bank had more statistical effect on two statements.

Rating Behaviour- Comparison on the basis of functional area

To know whether rating behaviour also differ on the basis of functional areas in which respondents are operating was analysed as follows:

Table 6: Rating Behaviour- Comparison on the basis of functional area

Statement Statement	Functional Area	N	_	Chi-square		P-values
			Rank	test		
As a rater, I practise	Administrative	4	47.63	14.570	6	.024*
inflated rating (if situation arises)	Banking	6	42.00			
	Finance	26	52.31			
	HR	15	33.93			
	Marketing	11	30.18			
	Operational	11	30.95			
	Securities	7	36.57			
	Total	80				
As a rater I assign inflated/ deflated	Administrative	4	47.50	12.729	6	.048*
rating while appraising performance as	Banking	6	60.50			
to keep the employees motivated	Finance	26	44.42			
	HR	15	31.43			
	Marketing	11	44.50			
	Operational	11	34.14			
	Securities	7	27.93			
	Total	80				
As a rater I assign inflated/ deflated	Administrative	4	44.00	14.857	6	.021*
rating while appraising performance	Banking	6	60.33			
on the basis of good recent performance	Finance	26	47.83			
	HR	15	37.83			
	Marketing	11	25.36			
	Operational	11	36.45			
	Securities	7	30.14			
	Total	80				
As a rater I assign inflated/ deflated	Administrative	4	60.00	20.886	6	.002*
rating while appraising performance to	Banking	6	64.33			
build a stronger case against an	Finance	26	43.19			
employee who is destined to be	HR	15	25.27			
terminated	Marketing	11	40.18			
	Operational	11	45.45			
	Securities	7	24.29			
	Total	80				

^{*}significant at .05 level

To know the rating behaviour of respondents on the basis of their functional areas, Mean rank was calculated and Kruskal Wallis test was used. Table 6 showed that Significant difference was found at 5% level for the statements "As a rater, I

practise Inflated rating (if situation arises)" having maximum(52.31) mean of employees of finance area, "As a rater I assign inflated/ deflated rating while Performance appraisal so as (a) to Keep the employees motivated having maximum(60.50) mean

of employees of banking area, (b) on the basis of Good recent performance having maximum(60.33) mean of employees of banking area and (c) to build a stronger case against an employee who is destined to be terminated with maximum(64.33) mean of banking area".

It was concluded that employees of banking area were more involved in inflated/deflated rating in the banks under study.

Research Results for Open-ended Ouestions

Two open-ended questions were asked to analyze the perception of raters and take their views vis-àvis rater's training and its timing and duration and also hindrance in performance appraisals

a) Rater's training and its timing and duration:

The objective of asking the question was to know whether raters get training while appraising the performance. It was observed that in both the banks, no formal training is given to raters for performance appraisal.

It can be inferred that if banks are not providing training for performance appraisals, so there are more chances for unethical performance appraisals.

b) Hindrance in performance appraisals

An open ended question was asked to analyze the factors which hinder importance of just and fair performance appraisal in both the banks. It was observed that biasness on account of personal relations, to remain in good books of the subordinates, to take work from them in near future come as the obstacle in the way of just and fair performance appraisals.

Suggestions

From the view point of Organizations

- 1) Organizations must set clear standards and provide a sound procedure for managers in the execution of performance appraisals.
- 2) A strong culture of accurate rating and leadership from above hierarchies is must because if culture of just and fair performance appraisals is maintained at above hierarchies, then it will be followed at lower levels.
- 4) Auditing of performance appraisal to ensure

the accuracy of data gathered must be done to observe whether an effective performance management system helped to have an accurate appraisal.

From the viewpoint of Managers

- 1) On going feedback (not once or twice per year event) must be given so that continuous and uninterrupted appraisal can be done.
- Carefully planned, written and face to face interviews should be conducted to appraise the performance of subordinates so that flaws can be extracted timely and actions can be taken without delays.
- 3) Mangers must include Total Quality Management concept in performance appraisal.

Conclusions

Organizations spend millions of rupees on designing and implementing performance Management System. Managers that operate in these systems have a tendency to manipulate performance ratings in the best interest of organization and employees. It is utmost important to understand challenges that managers face while doing rating. It was observed that personal discretion was the parcel in the appraisal process because managers need autonomy while appraising but the short term manipulation of employee ratings can lead to inaccurate and biased judgment, which further can misguide the organization for getting right person at right job, doing right things.

SBI bank employees showed more involvement in ethical issues while appraising the performance. Both the banks under study agreed that inflated/deflated rating was assigned generally to maximize the merit pay increase. ICICI bank employees shows maximum inflated/deflated rating behaviour than employees of SBI bank. Banking employees are more involved in inflated/deflated rating behaviour as compared to other functional areas between both the banks.

Further, it is concluded that it is time now for the raters to move ahead and use the right drive to exercise the right rating in enhancing organizational and individual performance by creating an accurate unbiased picture of how well employee is performing and help the employee move forward

to achieve both personal and business goals. The overall ratings will then contribute towards fair and consistent assessment of employees and business.

Refrences

- Armstrong M and A Baron (2004), "Managing Performance: Performance Management in Action," Chartered Institute of Personnel and Development, London.
- Beckner David, Highhouse Scott and Hazer T. John (1998), "Effects of Upward Accountability and Rating Purpose on Peer-Rater inflation and Delay: A field Experiment", Journal of Organizational Behaviour, Vol 19, No. 2, March, pp 209-214, John Wiley and Sons Pub., Available: http://www.jstor.org/ stable/3100195
- 3. Beu Danielle and Buckley Ronald M, (2001), "The hypothesized Relationship between Accountability and Ethical Behaviour", *Journal of Business Ethics*, Vol 34, No.1, Nov, pp 57-73, Springer Pub, Available: http://www.jstor.org/stable/25074622
- Bruhn G John, Zajac Gary and Kazemi-Al A Ali (2001), "Ethical Perspectives on Employee Participation in Planned Organizational Change: A survey of two State public Welfare Agencies", Public Performance and Management Review, Vol. 25, No.2, Dec, pp. 208-228, M.E. Sharpe, Inc. Pub., Available: http://www.jstor.org/stable/3381100
- Connelly Shane, Fauth- Helton Whitney and Mumford D Michael (2004), "A Managerial In-Basket Study of the impact of Trait Emotions on Ethical Choice", Journal of Business Ethics, Vol 51, No 3, May, pp. 245-267, Springer Pub, Available: http://www.jstor.org/stable/25075210
- 6. Dumond E J (1994), "Making Best use of performance measures and information", International journals of Operations and production management, Vol 14, No 9, pp 16-31
- Folger Robert, konousky A Mary and Russell Cropanzona (1992), A Due Process Metaphor for Performance Appraisal", Research in Organizational Behavior, Vol.14, pp 129-177, Jai Press In, ISBN: 1-55938-242-2
- 8. Gupta Seema (2010), "A multidimensional Ethics Scale for Indian Managers' Moral Decision Making", Electronic Journal of Business Ethics and Organization Studies, Vol. 15, No.1, Available: http://www.ejbo.jyu.fi
- 9. Hawk R Stephen (1994), "The Efforts of Computerized Performance Monitoring: An Ethical Perspective", *Journal of Business Ethics*, Vol. 13, No. 12, Dec., pp. 949-957, Springer Pub, Available: http://www.jstor.org/stable/25072608
- Kamensky, JM (2006), "Successful performance Management", The Business of government IBM centres for the Business of government, Washington D C.
- 11. Keaveny J Timothy and Mc Gann F Anthony (1980), Performance Appraisal Format: Role Clarity and Evaluative Criteria", Research in Higher Education, Vol 13, No.3, pp.225-232, Springer Pub., Available: http://www.jstor.org/stable/40195291
- 12. Kohli A S and Deb T (2008), "Performance Management", Oxford University Press, New Delhi, pp 58

- 13. Lansbury R (1988), Performance Management: A process Approach', "Asia Pacific Journal of Human Resources", Vol.26, No.2
- Longenecker Clinton and Ludwig Dean (1990), "Ethical Dilemmas in Performance Appraisal Revisited", Journal of Business Ethics, Vol. 9, No. 12, pp. 961-969, Springer Pub, Available: http://www.jstor.org/stable/75072119
- Longenecker O Clinton Sims P Henry Jr and Gioia A Dennis (1987), "Behind the mask: The Politics of Employee Appraisal", The Academy of Management Executive (1987-19879), Vol 1, No 3, Aug, pp 183-193, Academy of Management Pub., Available: http://www.jstor.org/stable/4164751
- 16. Mc Mohan M Joan and Harvey J Robert (2005) "Psychometric Properties of the Reidenbach-Robin (1990) Multidimensional Ethics Scale (MES)", Paper presented at the Annual conference of the Society for Industrial and Organizational Psychology, Los Angeles
- Mendonca M and R N Kanungo (1990), 'Work culture in developing countries: *Implications for Performance Management'*, "Psychology and Developing Societies", Vol.2, No 2, pp 136-164
- Mobley H William (1982) "Supervisor and Employee race and Sex Effects on Performance Appraisals": A Field Study of Adverse Impact and Generalizability", The Academy of Management Journal, Sept, Vol. 25, No.3, pp.598-606, Academy of Management Pub, Available: http://www.jstor. org/stable/256083
- Moon J Chris and Woolliams Peter (2001), "Managing Cross Cutural Business Ethics", Journal of Business Ethics, Vol 27, No 1/2, pp 105-115, Annual EBEN Conference, Sep, Springer Pub., Available: http://www.jstor.org/stable/25074367
- Neely Andy (1999), "The Performance Measurement: Why now and What next?", International Journal of Operations and Production Management, Vol. 19, No. 2, pp. 205-228, MCB University Press, University of Cambridge, U K
- Patterson M. Denise (2001), "Casual Effects of Regulatory, Organizational and Personal Factors on Ethical Sensitivity", Journal of Business Ethics, Vol 30, No 2, March, pp 123-159, Springer Pub, Available: http://www.jstor.org/stable/25074487
- Roozen Irene, Pelsmacker De Patrick and Bostyn Frank (2001), "The Ethical Dimensions of Decision Processes of Employees", Journal of Business Ethics, Vol 33, No 2, Sept, pp. 87-89, Springer Pub., Available: http://www.jstor.org / stable/25074594
- Ryan Leo V (2006), "Current Ethical Issues in Polish HRM", *Journal of Business Ethics*, Vol 66, No 2/3, The 11th Annual International Conference Promoting Business Ethics, June- July, pp 273-290, Springer Pub, Available: http://www.jstor. org/stable/25123832
- 24. Schminkle (1997), "Gender differences in Ethical Framework and Evaluation of Others' Choices in Ethical Dilemmas", *Journal of Business Ethics*, Vol 16, No 1, Sept, pp 55-65, Springer Pub, Available: http://www.jstor.org/stable/25072869
- Schwartz S Mark (2002), "A Code of Ethics for Corporate Code of Ethics", Journal of Business Ethics, Vol 41, No 1/2,

- The role of Business person in the fabric of Society (Nov-Dec), pp 27-43, kluwer Academic Publishers , Netherlands, Available: http://www.jstor.org/stable/25074904
- Shore H Ted, Adams S Janet and Tashchian Armen (1998), "Effects of Self Appraisal Information, Appraisal Purpose, and Feedback target on Performance Appraisal Ratings", Journal of Business and Psychology, Vol 12, No 3, March, pp 293-298, Springer Pub, Available: http://www.jstor.org/ stable/25092596
- 27. Sims, R (1992), "The challenge of ethical behaviour in organizations, *Journal of Business ethics*, Vol 11, No 7, pp 391-399, Dordrecht
- 28. Tziner Aharon (1984), "A Fairer Examination of Rating Scales when used for Performance Appraisal in a real Organizational Setting", *Journal of Occupational behaviour*, Vol 5, No 2, April, pp 103-112, John Wiley and Sons Pub, Available: http://www.jstor.org/stable/3000121
- Varca, P E and J M Valutis (1993), 'The Relationship of ability to job performance', "Applied Psychology: An international Review", Vol 42, No 3, pp 265-75