

Performance Appraisal Systems in Private Banks of Bangladesh: A Study on the Mercantile Bank Limited

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Keywords

Performance Appraisal, Employee Appraisal, Bank, Personal Bias, Effectiveness.

Abstract

Performance appraisal is the process of determining and communicating to an employee how he / she is performing on the job and ideally, establishing a plan of improvement. It is very much critical because it helps the managers to take the administrative decisions effectively relating to promotions, fringes, payoffs and merit pay increases of the employees. So, performance appraisal is a must for all organizations. This paper aimed at critically evaluating the existing performance appraisal systems of Mercantile Bank Limited. For this reason, the researcher has reviewed existing literatures and collected relevant information from the bank. Finally, the researcher has provided some recommendations to overcome the problems involved with the existing performance appraisal system of Mercantile Bank Limited.

Introduction

Today's manager one of the key responsibilities is taking human resource decisions. Indeed, the success and failure of a human resource manager depends on how effectively & efficiently he/she performs the human resource management functions. In the traditional approaches, the human resource department is responsible for setting and managing a performance appraisal system. Managers conduct performance appraisal as one of their administrative duties. It is arguably that performance appraisal is the most contentious and least popular activities performed by human resource managers (Britton and Gold, 2003). Often, managers feel they do not know how to evaluate employee performance effectively, and employees feel they are excluded from the process and their contributions are not recognized (Noe, Hollenbeck, Gerhart, and Wright, 2004). Human resource managers measure the performance of employees by filling-out forms one or twice in a year and present the information to their employees, one by one. Appraisals include negative information (areas needing improvement), so the meetings for discussing performance appraisals tend to be uncomfortable for managers and employees, alike.

In many organizations, two evaluation systems exist side by side: the formal and the informal. Managers often think about how well employees are doing; this is informal system. Political and interpersonal processes influence it, so those employees who are linked better than others have an edge. But managers cannot find out the real/actual performance of employees through this system because here managers liking or disliking are material and employee's performances are immaterial. By contrast, a formal performance evaluation is a system set up by organization to regularly and systematically evaluate employees' performance. Most of the organizations follow formal evaluation system because they think that performance appraisal is the essential thing for the organizational success. Managers must maintain the visibility in the performance evaluation program because it may accelerate the authenticity of the program.

Research Objectives

The study is undertaken with the following objectives:

1. To know about the performance appraisal system of Mercantile Bank Limited;

2. To identify the strengths and weaknesses of the performance appraisal system of Mercantile Bank Limited;
3. To evaluate the employees' attitude towards the authenticity of the performance appraisal system used by the bank; and
4. To recommend some measures to overcome the problems of existing performance appraisal system of Mercantile Bank Limited.

Research Methodology

The methodology of the study including selection of sample, size and location of sample, data collection and analysis techniques, etc. are detailed in this section. A number of 80 employees were surveyed from the 20 branches of Mercantile Bank Limited operating in Dhaka Division as shown in Table-1.

Table-1: Number and Types of the Surveyed Employees

Category of Employees	Number
Managers	20
Executive Officers	25
Probationary Officers	20
Junior Officers	15

Almost all data were collected from both the primary and secondary sources. Primary data were collected using a structured questionnaire consisting of 10 questions revealing employees opinion on the existing performance appraisal system of the Mercantile Bank Limited. Data were collected by face-to-face interview of the sample employees and were analyzed according to the scale developed by Griffin (1999): Strongly Agree=5, Agree=4, Neutral=3, Disagree=2 and Strongly Disagree=1. Secondary data were collected from the annual reports, books, journals and other published materials.

Review of Existing Literature

The survey of different research studies in the concerned area indicates that the term performance evaluation, merit rating and performance appraisal are mostly used in measuring the performance of an employee or employees (Bhattacharjee and Karmaker, 1989). Beach (1965) defined performance appraisal as "the systematic evaluation of the individual with respect to his/ her performance on the job and his/her potential for development". A more comprehensive definition of performance appraisal was given by Douglas et. al., (1985). According to them, "performance appraisal is a systematic review of employee's meaningful job behavior to respects their effectiveness in meeting their job requirements and responsibilities".

Common Uses of Employee Performance Appraisal

The common uses of the employee performance appraisal are as follows:

- i) One of the most common uses of performance appraisal is for making administrative decisions relating to promotions, fringes, layoffs, and merit pay increases.
- ii) Performance appraisal information can also provide needed input for determining both individual and organizational training & development needs.
- iii) Another important use of performance appraisal is to encourage performance improvement. In this regard, performance appraisals are used as a means of communicating to employees how they are doing and suggesting needed changes in behavior, attitude, skills, or knowledge.
- iv) Finally, two other important uses of information generated through performance appraisals are a) input to the validation of selection procedures, and b) input to the human resource planning.

Existing Employee Performance Appraisal System of Mercantile Bank Limited

Mercantile Bank conducts a performance appraisal program to evaluate performance of executives, officers, and staffs. Regular employees' performances are evaluated annually. The newly recruited probationary officers are to undergo training on basic training course (both practical and theoretical) for two months from their joining. Evaluation of training for probationary officers contains evaluation criteria like direct functions and indirect functions. Direct functions include general banking, credit management and investment, treasury management, and foreign exchange etc. and indirect functions include dress up/ with ID card, punctuality/ attendance, manner/etiquette, familiarity with hierarchy, system & environment, departments, behavior with senior colleagues, communication techniques/ skills, silence, filing procedure/ record keeping, cleanliness etc. The evaluation is done according to BA (Below Average), Good, Excellent and Outstanding where BA (Below Average) = 50%, Good=60%, Excellent=80% and Outstanding=100% on criteria-wise performance of each trainee.

Other newly recruited employees are to undergo training on foundation course for six months and subsequently a specialized training for three months. During that probationary period all employees are appraised monthly to see their proficiency, progress, and potential. The bank uses two types of forms for appraisal - one for lower-level employees like assistant, receptionist, teller typist, etc. and the other for assistant officer and above. MBL has adopted these forms from Central Bank i.e. Bangladesh Bank. Both forms contain items for qualitative and quantitative judgment of behavior, performance and potential of the appraisee.

Appraisal form used for the lower level employees contains appraisal criteria like knowledge of job, amount of work, quality of work, dependability, ability to learn, capacity and ambition for future growth. Each of these items is well defined. Evaluation is done on each of the items on a four point scale- Excellent (4 points), Very Good (3 points), Good (2 points) and Below Average (1 point). According to this rating procedure, reporting officer appraises annual performance of the reportee.

The appraisal form used for the executives and officers are quite lengthy and comprehensive. It has four parts. Part-A of the form has 16 items which are to be filled in by the employee. These 16 items give information about the employee's Name, Father's Name, Date of birth, Designation, Academic Qualification, Professional Qualification, Present Salary, Experience in other Bank(s), Date of joining in MBL & Designation, Present place of posting & date of joining, Previous posting in MBL, Promotion received in MBL, Training/ Workshop attended, and Business performance. Part-B contains instruction for the reporting officer, appraisal criteria and rating scale. In this part overall performance of the employee is evaluated. Evaluation is done on a four point scale as Excellent (35-45), Good (25-34), Average (15-25), and Below Average (0-14). Appraisal criteria includes such things as- personal knowledge, reliability, commitment, sense of belonging & responsibility, quality and quantity of work, analytical ability, power of judgment, decision making, honesty & integrity, financial discipline, attendance, communication ability, leadership, interpersonal relationship, marketing ability, presentation & outer ability, learning ability, initiative, drive, enthusiasm, knowledge of banking, skill & awareness to rules & policies and its implementation, and administrative/ disciplinary action. Evaluations on these items are made on a four point scale as explained above. Part-C of the form contains comments of the reporting officer on the performance of the employee which are to be filled in by the reporter. This part also contains comments of the reporter on employee's development needs, promotion, annual grade increment, special increment(s), number of special increment(s), and consideration for another jobs. It also contains the comments of the supervisor of the reporting officer. He/She may agree or disagree with the assessment of the reporting officer. If he/she does not agree with the assessment, he/she must give reasons for disagreement. Part-D is to be used by the management committee of the Head Office. Marks given on the appraisal report out of 100 are later on considered by the Human Resource Department of the Head Office for recommending performance increment. Marks distribution has been shown in the following table.

Table-2: Distribution of Marks

SL No.	Particulars	Total Marks	Marks Secured
1.	ACR	45	
2.	Length of Banking Service (1 point for each year of service)	10	
3.	Academic Qualification	05	
4.	Institute of Bankers Examination Part-I=4 marks & Part-II=6 Marks	10	
5.	Professional Training (for each training 2 marks)	10	
6.	Computer Training/ Knowledge	05	
7.	Interview Performance/ Assessment	15	
	Total	100	

Masters =04, Graduate (Hons.) =03, Graduate = 02 (1 Mark for each 1st class in Terminal Degree)

Appraise scoring more than 90 % marks are given 10 % performance increment, 80 % marks are given 5 % performance increment and 70 % marks are given 2.5 % performance increment. This part also contains necessary instructions for the reporting offices. These instructions are as follows:

- ▶ Please write ACR of those employees who have served under you for a minimum period of (six) months.
- ▶ While writing ACRs of your sub-ordinates, please consider the following:
 - (a) Be practical as far as possible.
 - (b) Be reasonably prudent in the judgment.
 - (c) Be sincere, impartial and unbiased in making comments.
 - (d) Avoid overstatement and understatement.
 - (e) Compare the employee concerned with his or her colleagues of the same rank. Do not allow your own liking and disliking influencing the ratings.
 - (f) Keep in mind that your impartial ratings will reward the right person and facilitate management to take measures for improvement of the skill of the deficient employees.

The bank also appraised the performance of internee students. It uses one type of form of performance appraisal. It has two parts. Part- A of the form contains seven items to give information about the reportee's Name, Commencement date of the internship program, Name of the evaluator, Designation, Organization, Signature of the internee and Date which are to be filled in by the internee students. Part- B contains instruction for the evaluator, appraisal criteria and scale for rating. Appraisal criteria includes ten items, e.g. Punctuality, Behavior and Attitude, Willingness to learn, Verbal communication skill, Written communication skill, Ability to work with people, Maturity, Conceptual and Analytical skills, Ability to meet deadline, and ability to adapt environment. Evaluations on these items are on Poor, Average, Good and Outstanding. This part also contains comments of the evaluator on the performance of internee students. Finally, the evaluator must put his or her signature with date and to give official seal and send it to Chairman, Internship Placement Committee in a sealed envelope marked "COFIDENTIAL".

Research Findings

On the basis of the objectives and discussions, the findings of the study are as follows:

1. The bank is suffering from uniform policy of performance appraisal because in some branches employees are evaluated by the Head of the respective department and in some branches employees are evaluated by the head of the branch. In reply to a direct question, employees answered that some Head of the respective

department and some head of the branch are affected by the halo effect and they have given high or low marks according to their personal liking or disliking. Thus, sometimes good performer may not be rewarded.

2. Most of the respondents (95 percent) demand suggestion/advice/guideline from the authority of the bank so that they can overcome their weak points.
3. Performance appraisal program has to be open for the employees so that they appraise their own performance and be familiarizing about the method/technique used by the authority to conduct the evaluation program.
4. Some branch managers and Head of the respective department reported that they have to conduct the performance evaluation program under tremendous internal and external pressures.
5. The 95 percent of the respondents reported that they need training and motivational session to participate in the evaluation program with effectively & efficiently.
6. The internee students reported that they have no opportunity to see their appraisal reports during the appraisal program and to give any opinion regarding the appraisal report because it is highly confidential. They also reported that they preferred to be rated by their supervisors who knew them well and who were directly involved with their work. But in the present system, the head of branch evaluates them. They felt that there is a possibility of getting low score by the internee student who is not in good term with the head of branch.

Research Recommendations

The following recommendations will help the authority of Mercantile Bank Limited to take the appropriate decision to overcome the problems of existing performance appraisal system:

1. The bank authority should develop a uniform performance appraisal policy and should form a performance evaluation committee by the Head of the branch and Head of the respective department of the branch to conduct the evaluation program with more authentically.
2. The HR manager of the branch should prepare performance appraisal report to each and every employee by using committee report, employee's self-evaluation report, and the interview taken by the HRD. After preparing the performance appraisal report along with the guideline/suggestion, the HRD should send it to each and every employee so that employees can see their actual performance and also they can overcome their weak points by using this suggestion/guideline.
3. The bank authority and the committee of the evaluation program of the branch should clearly explain to the employees about method/technique that is going to use for conducting the evaluation program.
4. The HRD and the Directors of the bank should provide power/freedom to the Head of the Branch and Head of the respective department to freely and accurately conduct the performance appraisal program so that the authority may provide reward to the excellent performer.
5. The HRD of the bank should arrange extensive training and motivational session for the employees in order to explain the significance of the evaluation program so that employees may get information about the ways of successfully participating in the evaluation program.
6. The bank authority should not appraise the performance of employees based on deposit collection, procurement of business and advances & recovery. They should appraise the performance of employees based on their accomplished duties & responsibilities.

7. The branch manager should not evaluate the performance of internee students. They should be evaluated by their supervisors who knew them well and who were directly involved with their works. The authority may provide opportunity to the internee students so that they may see their performance results and get the chance to provide their opinion regarding the performance appraisal system. As a result, conflict and confusion between internee students and authority of this bank may be minimized.

Concluding Remarks

Performance appraisal is an integral part of every organization. Properly developed and implemented performance appraisal can help an organization achieve its goals by developing productive employees. Managers of the sample branches should follow the fairness policy while appraising the performance of their subordinates. While there are many types of performance appraisal systems, each having its advantages and disadvantages, the researcher offers some suggestions: Evaluate employees on behaviorally desired measures, use multiple raters, include peer assessments and self-assessments, reward accurate appraisers, and, above all, communicate the results of the evaluation to the employee along with the suggestions so that the poor performer can develop his/her performance. In one form to other, performance appraisal has been with us for more than 100 years. Still performance appraisal remains endlessly controversial (Gellerman, 1988). There is no universally accepted method of performance appraisal. However, performance appraisal program can be made more effective if management rightly fit practice to purpose when setting goals and selecting appraisal techniques to achieve them (Khanam and Hakim, 2002).

Research Limitations

The main limitation of the research study is that the researcher was taken twenty (20) branches of the Mercantile Bank Limited operating in Dhaka Division to collect the information for this study. The another limitation of the research study is that the researcher was taken eighty(80) employees (Junior Officer to Manager) from twenty branches locating in Dhaka as sample size. These eighty employees have been represented the other employees of the Mercantile Bank Limited all over the Country regarding the bank's performance appraisal system.

Future Research Directions

Despite some limitations, the present research study provides some guidelines for future research study, which are as follows:

First, this study was conducted only on twenty branches operating in Dhaka City. The number of branches included in this study is inadequate in comparison with the number of branches of the bank. A similar study can be initiated on other branches to know the opinion of employees regarding the existing performance appraisal system of the bank. Such study on extended branches either may conform or reject the present findings.

Second, though the junior to manager-level employees were included in the present, but their opinion regarding the existing performance appraisal system was not studied on the basis of level of the employees. Thus, a study can be conducted to identify the difference of opinion of the employees at different levels.

Third, this study was conducted on the male and female employees. But gender wise opinion was not studied. Thus, a study can be designed to assess the opinion of the male and female employees.

Fourth, a study can be designed to identify the factors affecting the opinion of employees working in different branches of the Mercantile Bank Limited.

Fifth, this study was conducted on the employees working in Mercantile Bank Limited. Similar study can be designed to assess the opinion of employees regarding the existing performance appraisal systems in other private and government banks in Bangladesh. The differences in opinion of the employees across these sectors can also be studied.

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Appendix

A. Questionnaire

An Analysis of Performance Appraisal System of Mercantile Bank Limited

Name:

Designation:

Name of the Bank:

Name of the Branch:

Strongly Agree	5
Agree	4
Neutral	3
Disagree	2
Strongly Disagree	1

SL	Questions	5	4	3	2	1
1.	I am satisfied with the behavior of my supervisor.					
2.	The performance appraisal method is visible and standard in my branch.					
3.	My supervisor is followed the appropriate performance appraisal process.					
4.	Employees are fully aware of performance appraisal system in this branch.					
5.	My branch performance appraisal is based on specific objective.					
6.	I am allowed to formally communicate with supervisor regarding the appraisal results.					
7.	My supervisor provides me with a useful performance appraisal.					

8.	My supervisor provides me feedback with necessary guidelines to improve the performance.					
9.	My supervisor jointly sets performance objectives with me.					
10.	My supervisor is able to conduct the performance appraisal of employees without showing any biasness.					

B. Sample of ACR (Annual Confidential Report)

This is to certify that Mr. / Ms. X, Employee ID: 074-11-0000 is working under me in the Mirpur Branch, Dhaka as a Junior Officer from January 01, 2010 to December 31, 2010. He has got 43 out of 45 marks in the ACR. As a reporting officer, I have given my comment below on the performance of Mr. / Ms. X by considering all the issues according to the performance appraisal system in our bank:

Recommended for Promotion to the rank of **Officer**

Not yet for promotion, needs further development in present position.

Appears to have reached his/ her limit.

Recommended for Annual Grade Increment

Recommended for Special Increment (s)

Please mention the number of Special Increment (s)

Should be considered for another job such as

(Md. Abdul A)
Reporting Officer