

# **Performance appraisal systems in private banks of Bangladesh: a study on the Mercantile Bank Limited**

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## **Key Words**

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.*

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## **Introduction**

Today's management one of the key responsibilities is taking human resource decisions. Indeed, the more effectively the manager handles this part of his job, the more likely he or she is to be successful not only in the eyes of his/her superiors, but of his/her peers and subordinates as well. One factor that is basic to a sound human resource decisions, indeed, is a proper assessment or evaluation of performance (Sloane and Johnson, 1980). This process helps an organization to identify the good, average and poor performance of employees. It provides accurate and timely evaluation of the capabilities of an organization's current human resources for meeting the various future objectives. It needs no reiteration that behind every successful organization, there is an effective process to reward the best performer and it has certainly impact on the growth and the productivity of the employee (Gani, 1995). The system of performance appraisal motivates people to work hard to set objectives in cooperation with the management (Hamid and Saifuddin, 1998).

Most of the companies maintain their formal evaluation system because they consider performance evaluation to be fundamental to organizational effectiveness. It is better to maintain the visibility of a formal program because it may help to improve systematically the fairness, validity, usefulness and reliability of the appraisal process (Schuler, 2003).

## **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 City 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”.

### **Purpose and Usage of the Employee Performance Appraisal**

The purpose and usage of the employee performance appraisal are as follows:

**i) Firstly**, an appraisal helps in bringing about and maintaining a standard level of performance. A well designed performance appraisal system decreases ambiguity concerning job requirements and uncertainty about rewards to be achieved by providing employees with information about what is expected of them and feedback on how they have performed (Ivancevich et. al., 1980).

**ii) Secondly**, it helps the employees to improve their performance through self- learning and personal growth. This developmental purpose is accomplished when employees are made aware of their strengths and weaknesses and of ways to improve their skills and abilities (Ivancevich et. al., 1985). However, it is also viewed as to reducing favoritism in managerial decision making process. Valid performance standards are an important means for reducing perceptions of favoritism.

**iii) Finally**, it also provides information of great assistance in making and enforcing decisions about such subjects as promotion, pay increase, lay-off and transfers. The reported uses of formal appraisal in one survey of 132 companies was 63 percent for employee development, 20 percent for feedback of operating performance, 10 percent for making promotions, and 7 percent for human resource planning ( Calalanello and Hopper, 1981).

Theoretically, all of these are expected purposes of the appraisal program. Unfortunately, they are practically incompatible. In fact, the appraisal interview has little effect on performance improvement. Studies have shown that individuals receiving lower appraisals did not receive lower increments. Again, an appraisal of performance is not necessarily the best basis for deciding on promotion. In fact, in one study 52 percent of employees felt that the assessment form had no influence on promotions (Chales and Handy, 1983). Therefore, in large part, traditional appraisal system is not very effective.

## **Existing Performance Appraisal System of Mercantile Bank Limited**

Mercantile Bank operates a performance appraisal program to evaluate performance of executives, officers, and staffs. Performances of regular employees are evaluated annually. 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 1<sup>st</sup> 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 “**CONFIDENTIAL**”.

## 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. In some branches lower level employees are rated by manager-in-operations and in some branches by the department- in - charge. On the other hand, some branch mangers appraise all staffs and officers working under

- him/ her to avoid discrimination. They reported that some department- in -charge or manager-in-operations are lenient and they give very good score to the employee while others are strict and conservative in rating. As a result, employees with same efficiency are given different score by different raters. They argue that if all employees in a branch are rated by one rater, evaluation will be made on a uniform basis for all workers. Under the present system, the employees are appraised against the job -related criteria instead of personal traits of the employee. Appraisal criteria are well- defined and scales from excellent to below average have been developed on the basis of management concept and standard. The guidelines given in the appraisal form clearly explain what 'excellent' and 'average' performance means. It has reduced the subjectivity in the performance appraisal system.
2. Employee participation and employee self -evaluation involve in appraisal procedure. He or she has an opportunity to express his/her views on performance. Appraisal process is not confidential. Appraisee can see that the feedback of appraisal and he/she is free to comment on the result of assessment done by the reporting officers. He/ she may agree or disagree with the result of the rating. Majority of the respondents (92 percent) reported that they are aware of the method of the performance appraisal and they have accepted it. Appraisees are satisfied with present system of appraisal (90 percent of the respondents). They felt that management was impartial in preparing the appraisal report. However, 10 percent of the respondent expected more impartial assessment by the management. From the appraisal report, employees can have a look at their strong and weak points, and as such they can take necessary measures to improve their weak aspects of performance in future.
  3. Performance Appraisal Program of Mercantile Bank Limited operates with definite purposes, e.g., pay increase, promotion, fringes, layoff and employee development & transfer. Satisfactory performers are rewarded with promotion, annual grade increment, and special increment. Appraisal report identifies poor performers. They are given special training to improve performance. If they failed to reach up to the standard, they are transferred to less important department.
  4. Job evaluation conducts by the managers and manager-in-operations without facing any pressure. In reply to a direct question in this regard respondents reported that they are not influenced or pressurized by any interest group while rating their subordinates. These appraisers reported that they always try to be fair in the evaluation process. But they admitted that they could not eliminate the subjectivity of the system. Personal bias, fellow-feeling, leniency or strictness on the part of the rater may affect proper assessment. The appraisers also reported that they made sympathetic appraisal of the employees whose promotion became due. They believe that there is a possibility of getting low score by the employee who is not in good term with the reporting officer.
  5. The 95 percent of appraisees reported that they preferred to be rated by the immediate superiors who knew them well and who were directly involved with their work. However, 5 percent of respondents believe that under the present system, assessment of one's performance is not done accurately.
  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. Under the present system of performance appraisal, only qualitative judgment of performance can be done. Management should focus on components of performance appraisal process that can

be measured with quantitative data. Employees may have preset target for deposit collection, advances and recovery, making of profit, exports-imports activities, collection of remittances and income. Performance of the employees may be evaluated by the degree to which they have achieved the target. As such, all the respondents felt that they should have participated in setting goal. Participative goals are accepted voluntarily by the employees (Sloane, 1975). Participation has found to be positively co-related with the motivation and/ or performance in past studies (Vroom, Milani, and Kenis, 1975).

2. Branch Manager should not appraise the performance of branch- level employees. Employee should be appraised by the department –in-charge under whom he/she works. Appraiser should have direct communication with the employee for proper evaluation of weak points.
3. The evaluator should be honest, sincere and serious while appraising performance of his/her subordinates. If possible, employee may be appraised by more than one reporting officer, as the appraisal program is used for determining who should get promotion or receive increased salary. Besides, the feedback received by the rater might have strong impact on his/her self- esteem and subsequent performance. Critics claim that poor ratings tend to de-motivate poor performers rather than to spur their improvement (Gellerman, 1980). Since performance appraisal process is not confidential, management should be particularly careful in evaluating employees.
4. The authority of Mercantile Bank Limited should use three types of appraisal forms for evaluating performance of employees: one for staffs, one for officers and one for executive- level employees more properly. Assessment of staffs and officers on the items like planning, judgment and leadership is not relevant because they don't plan or take part in decision making.
5. 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 City 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 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 .....

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**(Md. A**  
Reporting Off