CHAPTER FIVE

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Methodology: In order to identify the standards which determined the performance linked reward a structured interview of Human Resource (HR) managers was conducted in the selected banks. Information regarding availability of different kinds of performance linked rewards for the employees in selected banks was gathered from the HR personnel. The financial performance standards as well as the non-financial performance standards on which the performance of the employees were appraised by the banks were identified by conducting the interview of HR personnel of all the selected banks. Questions on kind of appraisal techniques used by the banks, its periodicity and the kind of post-appraisal actions taken by the banks were asked during the interview. A total of twenty five HR personnel were in the selected banks.

Rewards and reward systems are fundamental to developing capacities and to translate developed capacities into better performance (Dapaah, et al.) Reward management deals with the strategies, policies and processes required to ensure that contribution of people to the organization is recognized by both financial and non-financial means. It is not just about pay and employee benefits but also the non-financial rewards such as recognition, learning and development opportunities, and increased job responsibilities (Armstrong 3). The reward system includes all the investment made in the organization’s human capital and everything that the employees might find attractive in the employment relationship. By using the right kind of rewards, either monetary or non-monetary, organizations can stimulate their employees to attain job satisfaction, provided the employees respond as intended. If so, this can ultimately increase the organizational efficiency, thereby creating competitive advantages.

5.1 Performance Linked Rewards in Banking Sector: Performance linked rewards provided by the organizations to their employees on the basis of performance is an important part of performance management system. In the present business environment performance-related pay, whether in the form of incentives (pre-agreed payments for certain levels of performance) or rewards (payment for performance achieved), is frequently used to support a performance-oriented ‘culture’ (Wright 83). Performance
linked rewards are very popular in the service industry. Banking industry specially is adopting performance linked rewards for creating performance-oriented culture for their employees. It is also felt that in performance-oriented cultures, performance linked rewards are seen by employees as a part of more equitable reward system than systems that offer no relationship to performance. Performance linked rewards practiced in banking sector consists of extrinsic performance linked rewards and intrinsic performance linked rewards. To ensure that the reward system is effective and motivate the employees towards the desired behaviours, it is important that rewards are based on or linked to performance (Reward and Recognition web). Pratheepkanth (86-92) studied the impact of reward and motivation in commercial banks of Sri Lanka. He classified wages and salary, bonus, commission, status and promotion as extrinsic rewards, and opportunities to completion, responsibilities, meaningful work and working condition as intrinsic rewards. Likewise Shafiq and Naseem classified salary, bonus, commission, status and promotion as extrinsic reward and opportunities for advancement, training, skills, meaningful work and working condition as intrinsic rewards in banking sector of Pakistan. Tahir et al. (195-206) did a study of extrinsic and intrinsic compensation instrument on nationalized banks of Pakistan. They described the extrinsic rewards as job itself, career development, autonomy and delegation, and intrinsic reward as salary, benefits, short term incentives, long term incentives and perquisite. Ali and Ahmed (270-279) conducted a study on impact of reward and recognition on employee motivation in which they took nine dimension of reward and recognition as independent variable viz., work content, payment, promotion, recognition, working conditions, benefits, personal (feelings towards their job), leadership and general (alternative employment). Priya and Ishwar (70-78) divided rewards into three categories in commercial banks viz., extrinsic, intrinsic and social. The extrinsic rewards are the physical benefits provided by the organization such as pay, bonus, fringe benefits and career development opportunities, and intrinsic rewards refer to the rewards that come from the content of the job itself, and encompass motivational characteristics of the job such as autonomy, role clarity and training (adopted from Hackman and Oldham 1976), and social rewards arise from interaction with other people on the job and may include having supportive relationships with supervisor and co-workers.

This study covers only the rewards based on performance in banking sector of India and tries to link the performance based rewards with the job satisfaction level of employees.
So, for the purpose of the study, performance linked rewards are classified into two categories, viz., extrinsic performance linked reward and intrinsic performance linked rewards. The provision of pay for performance, promotion and benefits are included under extrinsic performance linked reward. The work related issues like increase in duties, responsibilities, and targets and recognition and appreciation from supervisor which are linked to performance and thought by the organization as performance linked reward were included under intrinsic performance linked reward. The study considers three major areas of banking sector such as public sector, private sector and regional rural banks. Performance linked reward practices actually adopted by the banks for their employees in banking sector are presented below.

5.1.1 Extrinsic Performance Linked Rewards in Banking Sector: The following are the reward practices which comes under extrinsic performance linked rewards available in the selected banks under this study.

I. Pay for Performance: Pay for performance plans are those pay benefits which the employees receive on the basis of measured performance. This is the monetary benefit excluding the fixed salary or basic pay received by the employees on the basis of achievement of pre-set financial performance standards. This is an effective tool for banks not only to align employees’ behaviour with organizational goal but also to attract and retain the best talent. Pay for performance plans practiced in banks are listed below.

i. Variable Pay: As far as variable pay is concerned, it is an additional money provided by the banks to their employees in order to recognize their contribution towards the achievement of organizational aims and objectives. Variable pay is offered by banks to their employees to enable them perform well as per the required standards and to endorse and foster the organizations’ values and beliefs. Fixed pay is that which the employee will get surely on the basis of his/her scale or grade of job. But variable pay is something which depends on the employee’s performance and is also linked up with the bank’s business performance. After completion of every financial year, banks fix the variable pay for their employees. During survey it was found that for managers some lump sum amount of variable pay are declared by the management and for clerical staff onwards some percentage is determined on their fixed pay. Banks provide the amount of variable pay every month to their employees along with the basic pay.
During survey it was found that concept of variable pay is practiced only in private sector banks. This reward package is totally absent in public sector and regional rural banks. On October 2011 a press release of Finance Ministry sought views of Indian Banks Association (IBA) on introduction of variable pay in public sector banks (1. FinMin seeks views of IBA). The proposal has been moved on the recommendation of Khandelwal Committee on Human Resource (HR) appointed by the government which had suggested introduction of variable pay in the state-run banks as a major component of wages. Variable pay is generally linked to the profit of the bank and is higher if the profit recorded is high. In such an arrangement, banks will have the discretion to adopt the ‘cost to company’ approach to determine salaries (2. FinMin seeks views of IBA). RBI provides guidelines to private sector banks from time to time on variable pay issues. In January 2012, RBI said in private sector banks variable pay should not exceed 70 percent of the fixed pay of employees in a year and the Employee Stock Option Plan (ESOP) should be excluded from the component of variable pay. Further, guaranteed bonus should only be in the form of Employee Stock Option Plans (ESOPs). These guidelines have been implemented from financial year 2012-2013 (RBI tighten variable pay).

**ii. Performance Based Bonus:** Performance based bonuses are paid to employees by the banks at the end of every financial year. They are intended to reward employee behaviour during the year when the bank had achieved increased profits. This is a good attempt from the organization side to align the employee behaviour with organizational goals and objectives. The amount of bonus may vary from employee to employee. Employees’ performances are measured through performance appraisal system twice in a year. Based on rating scored by the employee onetime payment of bonus is declared. The concept of performance based increment/bonus is not practiced in public sector and regional rural banks. Only private sector banks follow this scheme to attract and retain best talent in their organizations.

**iii. Cash Awards:** Cash award is an incentive scheme which is offered by banks to their employees on short term basis. Banks conduct some contests and lay down some performance standards for their employees. If the employees achieve those targets, banks reward their employees with some amount of money. Sometime this may be in the form of shopping cards where banks pay money on employees’ purchase. Criteria for getting
Cash incentives include various things depending upon the needs and strategies of banks. For example, when Union Bank of India ran a campaign for current accounts, employees were rewarded not only for opening more accounts but also when inactive accounts were revived. Punjab National Bank also offer cash rewards to motivate employees for CASA (Current Account and Savings Account) campaign (Sokhi and Chakraborty). All the selected banks have the scheme of rewarding employees by cash awards.

**iv. Profit Sharing Scheme:** Profit sharing or gain sharing based on performance of employees are such kind of rewards which are generally paid for group performance. If the bank is performing well or the branch is doing good business in the financial year then some amount of profit is distributed among the employees based on their scale/grades of jobs. This is a kind of cash reward paid by banks for group performance. Employees vested with financial performance indicators are more likely to get such kind of rewards. Recovery of bad debts, non-performing assets, branch profits, interest earned, etc. are some of the criteria on which the bank decides to share some percentage of profits with their employees. This reward practice is followed by both public sector and private sector banks, whereas it is totally absent in regional rural bank.

**II. Promotion:** As far as promotion is concerned, all selected banks have adequate plans for promotion of their employees. Promotion plans are long term rewards for the employees, as these are based on the performance of the employees assessed through performance appraisal system. The performance of the employees is observed continuously for minimum of three consecutive years and maximum of five consecutive years. Every bank has its own appraisal system like 360 degree performance appraisal, balanced score cards, annual confidential reports, self appraisal, etc. Employees’ performance is measured against performance standards. Based on different dimensions employees’ performance is evaluated by the management. Rating scored by the employees in each appraisal period is considered for detailed observation and promotion decisions.

**II. Benefits:** Benefits are a kind of incentive schemes which the banks offer their employees to enhance their motivation and job performance. The study undertakes the following benefits which are practiced in the selected banks.
i. Awards: In order to recognize the contribution of employees towards the achievement of organizational goals, banks offer formal awards to their employees. It was found that awards are generally provided by banks to recognize the group performance branch wise, zone wise, region wise, circle wise. On individual basis it is awarded to the best performer or best employee. As awards, the bank issues certificates, trophy, etc. to recognize the individual and group performance of their employees. All the selected banks have an established practice of awarding their employees’ for their good performance.

ii. Gifts: Based on some contest banks offer gift as an incentive to their employees. Based on some performance standards circulated by head offices, banks provide gift coupons to their employees. Public sector banks also offer gifts to their employees for their long service in the organization.

iii. Foreign Tours: Provision of foreign tours is available in public sector and private sector banks. This concept is totally absent in the selected regional rural bank. Foreign tours are short term rewards for employees. As per guidelines of head offices, banks hold some contest based on specified performance standards of employees. If the employees achieve those targets they are rewarded with foreign trips.

iv. Club Membership: The provision of club membership is present only in the public sector banks for officers. The AGM’s, Chairman’s club, General Manager’s club, Deputy General Manager’s club scheme exists for branch managers. On the basis of some performance criteria, officers are selected for such clubs where they receive some kind of cash awards, recognition letters and holiday packages.

v. Career Advancement Scheme: The career advancement schemes are prevalent for clerical staff and officers in all the banks. In public sector and regional rural banks they conduct examinations for their employees for providing them opportunities for moving to a higher grade. In private sector banks, this decision is vested in the management’s hands. Detailed observation of employees performance records are made for career advancement scheme in private sector banks.

5.1.2 Intrinsic Performance Linked Rewards: Intrinsic reward factors are the motivational factors for employees. Frederick Herzberg found that feeling of accomplishment, personal challenge; increase in responsibility and belongingness were
the strongest intrinsic rewards in organizations. He demonstrated that intrinsic rewards are generally much stronger than extrinsic ones because the motivational value of extrinsic rewards tends to ‘zero out’. For example if a person used to winning a bonus for his/her good work, the person will start expecting the bonus every time. It will no longer "satisfy" him/her in Herzberg's terms. In fact, not getting a bonus will dissatisfy the person.

Availability of extrinsic rewards depends on the company policy, so it may vary from organization to organization. Intrinsic rewards included in the study are additional work entrusted to an employee, recognition and appreciation from supervisor. Intrinsic rewards based on the performance of employees are personally experienced by the employees. According to Samulson, intrinsic rewards are something that comes from inside the individual and refers to how the individual relates to the job and the organizational environment (Dapaah, et al.). These intrinsic rewards are discussed below.

i. Work: Employees are thought to be motivated to work hard to produce quality results when they have pride in their work, they believe their efforts are important to the team, and their jobs are fun, challenging and rewarding (Mahaney and Lederer 42-54). Work or job of an employee is the base for him to deliver his performance. The work of an employee can have significant impact on job satisfaction, stress, motivation, commitment or job performance. The increase in duties, responsibilities, and challenging targets attached to the work a person is involved can act as an intrinsic reward. All banks provide opportunities to their employees to show their caliber and ability to perform well by assigning work to them in form of duties, responsibilities and challenging targets.

ii. Recognition and Appreciation: Recognition and appreciation by supervisor like felicitation, recognition certificate, appreciation letter, etc., provided to the employees by their superior also plays a vital role in motivating and satisfying the employees in their job performance. It was observed that in all selected banks the efforts of employees are recognized and duly appreciated by their supervisor.

5.2 Performance Standards: The importance of employee evaluation is the establishment of a codified, consistent process to evaluate quantitative and qualitative performance of employees (Sandler and Kneefe 1-10). Performance standards are the most common method to define the basis for measuring performance results. Through
performance standards management can provide specific feedback to describe the gap between the expected and actual performance (Bhattachayya 1-20). On achieving those quantitative and qualitative performance standards, the employee by way of performance appraisal process were given some scores. These scores were taken into consideration for deciding different performance related rewards for employees. In order to evaluate employees’ performance, banks need some quantitative as well as qualitative performance standards. After a detailed observation of performance appraisal system of different banks, the following were found as commonly practiced performance standards used by banks in order to evaluate the performance of their employees.

5.2.1 Quantitative Performance Standards: The following are the quantitative performance standards also known as business performance indicators used by banks to evaluate employee performance.

i. Deposits and advances
ii. Credit and Investment deposits and advances
iii. Agriculture deposits and advances
iv. Average aggregate deposits and advances
v. Income from miscellaneous business like discount, exchange, commission earned
vi. International Banking – sales and purchase
vii. Profit and loss of branch
viii. Quality of loans and advances like standard assets, sub-standard assets and doubtful assets, loss assets
ix. Recovery of non-performing assets (cash recovery, upgradation, compromise and write off)
x. Marketing of products like insurance/ Mutual fund/ FD/ RD etc
xi. Non-fund and non-interest income
xii. Retail lending
xiii. Number of customers
xiv. Number of accounts in CASA deposits
xv. Priority sector lending like agriculture, small scale industries etc

5.2.2 Qualitative Performance Standards: The success of an employee at making decisions, demonstrating loyalty to his/her organization, managerial ability, providing quality customer service behaviour cannot be measured in terms of quantitative attributes. Every job is not amenable to result-based quantitative measurement, but for
many jobs success depends upon such attributes as cooperation, dependability, customer relations, attitude, and other even more abstract attributes (Grote 1-19). The qualitative performance standards are important specially for those employees whose performance cannot measured quantitatively like the clerical staffs and people in administrative jobs. Even it is also important to find out the qualitative performance attributes of managers to find out the qualitative aspects of their performance. The following are the qualitative performance standards for evaluation of employee performance at branch level employees.

i. Managerial ability
   a) Planning, organizing, coordinating and directing abilities
   b) Intellectual
   c) Leadership style
   d) Communication skills
   e) Decision making capability
   f) Motivating attitude
   g) Public relation/marketing skills
   h) Attitude/performance towards government sponsored schemes, SC/ST weaker section of society/ Poverty Alleviation programme
   i) Knowledge of rules, procedures etc. in handling government transactions

ii. Handling of qualitative business
   a) Degree of improving quality of assets
   b) General housekeeping of branches under zone/branch
   c) Based upon the customer grievances reported for the branch/ branches in the zone, how far the grievances have been redressed

iii. Customer responsiveness and customer care
iv. Housekeeping
v. Potential to drive the organization to greater heights
vi. Ability to take business risks consciously and venturing into greener pasture for business opportunities
vii. Judicious use of discretionary powers
viii. Outstanding performance including creative and innovative quality
ix. Self starter for organizational growth
x. Quality of performance and professionalism in the job
xi. Relationships with peers, superiors and subordinates
xii. Honesty and integrity
xiii. Devotion to duty
xiv. Responsiveness to handle the assignment with minimal error and quality output.
xv. Knowledge of working department, work procedures, rules and regulations
xvi. Control and supervision
xvii. Speed and accuracy in work
Dependability
Initiative
Ability to get along with colleagues

5.3 Performance Appraisal System in Banking Sector: Banking services is one of the sector where a great degree of attention is being paid to performance appraisal systems (Rao 269-280). Performance appraisal process carried out was based on a thorough and conscientious observation of employee and work performed. The observation of employee and work performance were evaluated through performance standards provided by the management to their employees in form of key performance areas, targets, attitude and behaviour of employees towards their work etc. These performance standards may vary from employee to employee because each and every employee is vested with some particular kind of job. It was observed that for employees belonging to managerial category both qualitative as well as quantitative performance standards were taken into consideration during performance evaluation. The study investigated that performance of clerical cadre and managers from administration were measured only on the basis of qualitative performance standards. Basically the clerical staffs were not dealt with the financial performance standards, so appraisal of performance were done on the qualitative performance indicators which also includes their key performance area. As far as banks related to public sector as well as regional bank are concerned, it was observed that appraisal system for clerical staff were adopted very recently. Earlier even the system of appraisal was not practiced by the banks for clerical cadre.

5.3.1 Process of Performance Appraisal System in Banks: Performance management is a systematic evaluation of an individual employee with respect to performance on job and his potential for development (Chowdhury 62-66). Performance appraisal is a critical human resource practice adopted by the banks in which supervisor evaluate the performance of subordinates and organizations use appraisal ratings to make pay, promotion decisions and identify training and development needs and motivate employees. The process of performance appraisal done through different methods of appraisal like BSC (Balance Score Card), 360 degree feedback, Annual confidential report, self appraisal etc. The process generally involved three members namely (a) Appraisee, (b) Appraiser, (c) Reviewer.
The appraisal form used for managers were quite lengthy and comprehensive which generally involved quantitative as well as qualitative performance attributes/ standards where as appraisal form for clerical cadre contains criteria like knowledge of job, amount of work, dependability, ability to learn, capacity and ambition to future growth. Banks also provide a self appraisal form to employees where employees can write their own achievements.

**Figure 5.1: Process of Performance Appraisal in Banks.**

As shown in figure 5.1 the immediate superior of the appraisee will give his feedback on achievement of performance standards of that particular employee and allot some scores. In order to avoid the biasness of the immediate superior i.e. the appraiser, in appraising the performance of appraisee, a reviewing authority is appointed i.e. the immediate superior of appraiser. The reviewing authority will review the feedbacks of both the appraisee and the appraiser, will give the final comments on appraisee’s performance and send it for further processing. The employees are also asked to write about the constraints faced by them in delivering their performance. They also have to write about the training programmes attended by them in that particular financial year. The outstanding performance of employees, business performance, their managerial ability, housekeeping, handling of qualitative business, and their key responsibility area are taken into consideration during performance evaluation.
Furthermore, differences have been observed with respect to performance appraisal of public sector, private and regional rural banks. Private sector banks are introducing newer mechanisms like, 360-degree feedback and Balanced Score Card (BSC), on the contrary public sector and regional rural banks are still adhering to the traditional and highly confidential way of doing appraisals (Juneja et, al. 37-42). The periodicity of appraisal in public sector and regional rural banks is generally one year, whereas in private sector banks it is done in every six months and sometime quarterly. It was also observed that appraisal system of public sector and regional rural banks were not fully linked with pay, promotion and benefits plans decisions, whereas in private sector it is fully linked to motivate the employees towards achieving desired performance. It has been regarded as one of the major factor in creating maximum dissatisfaction among the employees of public sector and regional rural banks towards performance appraisal. Several public sector banks have changed their performance appraisal system or are in the process of changing them. State Bank of India adopted an open system of performance appraisal. Self-appraisal system is there in several banks as a part of performance appraisal for communication of achievements for employees. Allahabad Bank introduced a system with an intention to help officers to identify their strength and weakness and encourage improvement of performance on the job (Chowdhury 62-66). Indian Overseas Bank has a system in which a branch manager gives a self appraisal on business growth, customer service, internal administration, and training requirements. Union Bank follow such appraisal system where the reporting officer is required to deliver a dependable measure of the value and assess each of his appraisee officers on technical skills, human skills and conceptual skills. Punjab National Bank has primarily a development oriented appraisal form. The bank has started the system with a self appraisal by the appraisee. Assam Gramin Vikas Bank has also self appraisal system for employees where the appraisee can rate his performance in a five point scale from outstanding to inadequate and also provide reasons and constraints for not performing well.

Private Banks also follow the system of self appraisal. HDFC bank provide scope to the reviewee for self appraisal on business results/ performance targets and on competency assessment which includes review on certain personal attributes to his/her job and giving feedback on area of strength and improvement (Singh 535). The rating scale consists of four point scale 1-Outsatnding, 2-Exeeds expectation, 3- Meets expectation, 4-
Unsatisfactory. The reviewer (supervisor) assesses the performance of reviewee (employee) with consultation of Function Head and sent the report which was further reviewed by Group Heads for overall rating distribution of business unit.

ICICI Bank follows a system of BSC in designing its performance appraisal system. Goals sheet provided by the bank to their employees consists of financial goals with non-financial goals. Non-financial goals cover relevant areas of customer service, adherence to risk and compliance norms and employee capability building. Staff engaged in all control functions including Compliance, Risk, Finance, Audit and others do not carry business profit targets in their goal sheets and hence are compensated independent of the business profit achievements. Their compensation is dependent on achievement of key results in their respective domain. Performance bonus is strongly linked to corporate performance, business performance and individual performance.

Axis Bank follows BSC approach in formulating its performance management system. Banks provide adequate attention towards the goal setting process to ensure alignment of individual objectives to support the achievement of business strategy, financial and non-financial performance goals. Non-financial goals include customer service, process improvement, adherence to risk and compliance norms, self capability development and behaviours such as integrity and team management. Appraisals are conducted annually and initiated by self-appraisal of the employees. The immediate superior appraises the performance of the employee with joint consultation with Moderation Committee comprising of senior officials of the bank (Kotak securities).

Federal Bank Ltd follows the system of 360-degree appraisal which is also initiated by self-appraisal of employee. IndusInd Bank also provides self appraisal form to their employees along with the provision of rating by reporting reviewing authority. Bank evaluates not only the performance of the employees but also the competencies and behaviour against their value system. Performance of the employees is evaluated quarterly and annually.

It can be concluded from the above that performance appraisal system traditionally used as controlling mechanism for employees with maintain high confidentiality on appraised performance of employees lead to unawareness of employees about their strengths and weaknesses in relation to their capabilities in different positions in the organization throughout their career. The traditional method fails to develop employees as well as the
organization. It was observed from the findings that the public sector and regional rural banks have an annual appraisal system that is historic nature and an annual one time affair only. The study of the format of performance appraisal of these banks revealed that they are basically uniform in character with emphasis in historical events and little or no importance to future growth and development of employees. In comparison to private sector banks the performance appraisal of public sector and regional rural banks were found dysfunctional (Chowdhury 62-66). Drawing from the above findings, it is suggested that there is an urgent need to redesign the appraisal system in public sector and regional rural banks. Changes in design/appraisal format such as introduction of 360-degree feedback, BSC, or online appraisal can be given a thought (Shrivastava and Purang 632-47).

**Chapter summary:** The finding in the following chapter visualized that performance linked rewards were attractive in private sector banks with variable pay and performance based bonus. Even the regional rural bank does not have good performance based benefits plans like foreign tours, holiday packages in their company policy like public sector and private sector banks. The public sector and regional rural banks have traditional method of performance appraisal with Annual confidential Report, whereas private banks have adopted modern and new approaches towards performance appraisal system for their employees.