

**PERFORMANCE MANAGEMENT PRACTICES AND MANAGERIAL  
EFFECTIVENESS: AN EMPIRICAL STUDY IN BANKING INDUSTRY**

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**ABSTRACT**

The banking industry today is facing a hectic competition. In order to sustain the competitive advantage, the banks have to update and modify its old organizational set up. One of the important aspects to face competition is performance management practices' implementation. It focuses on enrichment of productivity of bank employees and renders the better services to their customers at cheaper cost. The implementation of performance management practices (PMP) and its managerial effectiveness is studied in the study with the help of its seven components. The study revealed that there is a moderate implementation of PMP in banks. Still there is a scope for an intensive implementation. The implementation of PMP has a significant positive impact on managerial effectiveness in banks.

**Keywords:**

PMP, Managerial Effectiveness, Performance Evaluation, Parameter for performance.

## **Introduction**

The firm's performance can be enriched by the effective implementation of performance management practices (Ahmad, 2012). The performance management practices are systematic and scientific ways of communicating the expected performance parameters from their employees by the organization (Sosu, 2019). These practices cover the performance evaluation, feedback, performance based rewarding, planning of career, motivation, training and development (Sundaram, 2017). The performance evaluation benefits both employees and the organization to enrich their performance in future (Chandra, 2018). The performance management practices identify the area in which there is a need for training and development opportunities (Gandhi and Mittar, 2015). It is also used to recognize and reward for the higher achievers in the organization (Pravin and Kishor, 2016). The performance feedbacks can identify the performance gaps and also the alternative course of actions required to fulfill these gaps (Ziyanyana and Pwaha, 2019).

## **Performance Management in Banks**

Indian Banking industry is facing a tough competition in the present era. To sustain the competitive advantage, banks must have a commitment for improvement, innovation and change. The banks have to identify the skills, recruit, take care and also impart training on ongoing basis to improve its productivity in order to create conducive environment for its growth. The performance management practices play a key role in it (Sheelam, 2015). Participation and involvement in the performance management enrich the performance of the banks (Owena, 2018). Bank managements are in a position to enrich and extend their banking services to their customers and to attract new customers (Bobby, 2016). The performance evaluation techniques adopted by the banks are endorsing the bank employee's responsibilities and accountability to their respective banks (Kline, 2009). In this juncture, the present study has made an attempt to examine the role of performance management performance on its managerial effectiveness among the banks in the study area.

## **OBJECTIVES OF THE STUDY**

The focused objectives of the study are:

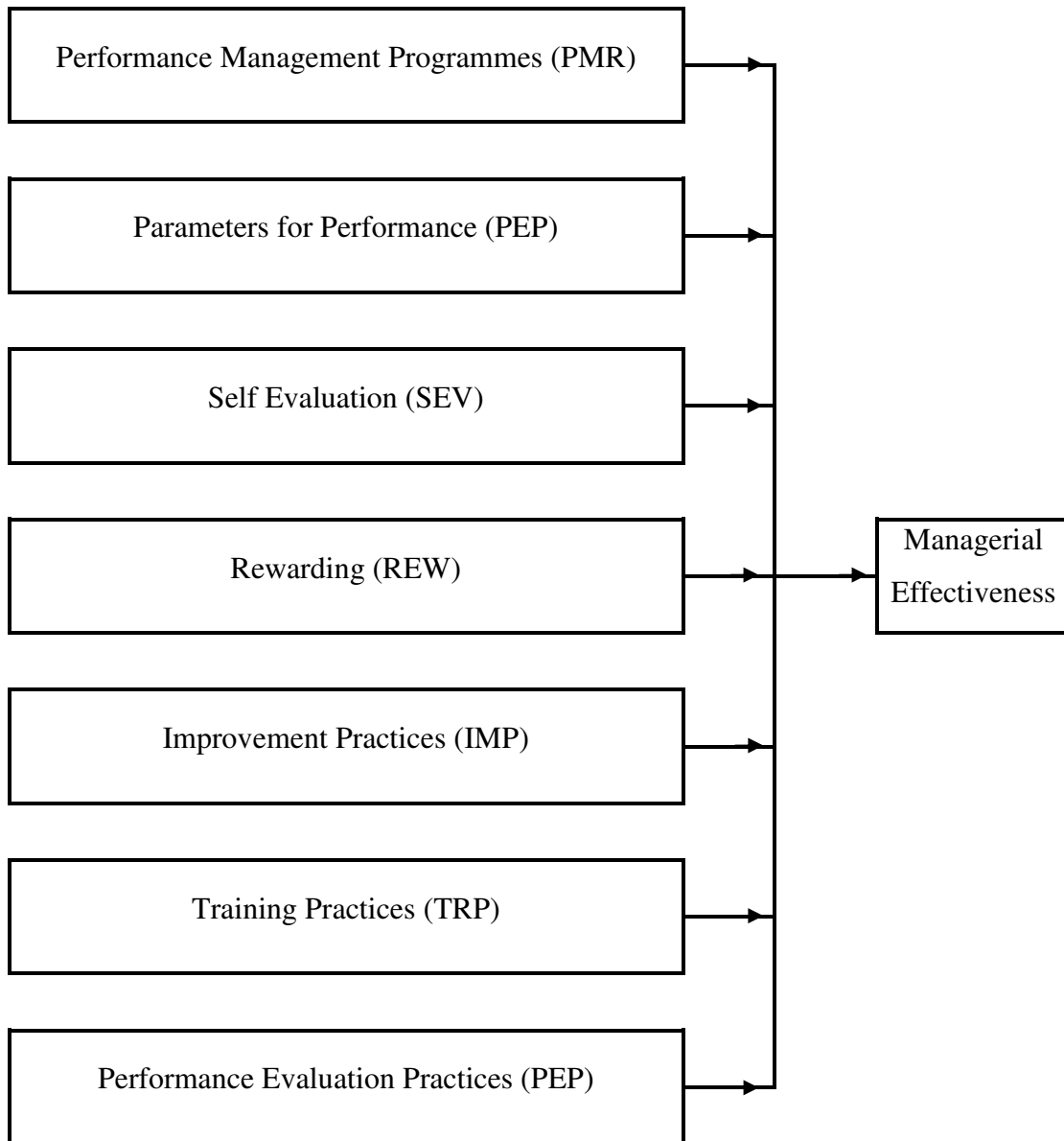
- i) To measure the rate of implementation of performance management practices by the banks as per the view its employees; and
- ii) To evaluate the effect of performance management practices on the managerial effectiveness.

## **Methods and Measures**

The present study is intended to be descriptive in nature, thus falls in the category of social research. Since the study is mainly depending on the primary data, the pre-structured questionnaire is used to collect the required data from the selected bank employees. The total numbers of public sector and private sector banks in Sivagangai district are 90 and 49 units respectively. From each bank, 2 employees (Manager and Assistant Manager) are purposively selected for the study. All the 278 bank employees are contacted by their e-mail address. The total responded bank employees for the questionnaire at the fullest level come to 218. The data have been included for appropriate statistical analysis to process the data.

## **Measures**

The constructs developed for the study are: (i) performance management practices; and (ii) managerial effectiveness. The components of performance management practices and managerial effectiveness and its path developed for the study are presented in given figure.



### **OPERATIONALISATION OF THE CONSTRUCTS**

The constructs developed for the studies are performance management practices (PMP) and managerial effectiveness of commercial banks. The performance management practices consist of Performance Management Programme (PMR), Parameters for Performance (PEP), Self Evaluation (SEV), Rewarding (REW), Improvement Practices (IMP), Training Practices (TRP) and Performance Evaluation Practices (Curmeen, 2006).

### **1.1 Performance Management Programmes (PMR)**

These are the programmes developed and implemented by the banks to enrich their performances (Applebaum, 2000). These programmes focus on the development of 360° of the employees' skill (Boselie, et al., 2001), starting from the innovation orientation to the career development of the employees.

### **1.2 Parameters for Performance (PEP)**

It is essential to develop the parameters for the evaluation of the employee's performance (Johnson, 2000). The parameters are not rigid which depends upon the need for the organization and also the different categories of the employees (Lebas, 1995). The parameters are customer focus, professionalism, flexibility, focus on corporate values, emotional intelligence, team adjustment, leadership, etc. (McCunn, 1998).

### **1.3 Self Evaluation (SEV)**

It shows the self assessment of their performance among the employees (Naisy, 2002). The self evaluation is executed by the banks through the disbursement of a self evaluation sheet with regular intervals (Armstrong and Baron, 2004). It covers a wider range of activities from job analysis to designing for future goals (Robertson, 2003).

### **1.4 Rewarding**

The rewarding represents the system of reward management at the organization (Gruman and Saks, 2011) which reveals the linkage between the reward and performance of individual employee (Subbaiah and Mathew, 2019). The recognition and rewards are the motivational factors to perform better (Van, et al., 2017). The rewarding varies from salary fixation to promotion in the organization (Mulwa and Weru, 2017).

### **1.5 Improvement Practices (IMP)**

It shows the level of implementation of various improvement plans and programmes by the organization to increase the level of performance of the employees (Erdem and Mohammed, 2017). The improvement practices starts with the consistent reviews and ends with competency development of the employees (Almohtaseb and Almahameed, 2017).

### **1.6 Training Practices (TRP)**

The training practices are the programmes implemented by the organization to develop the skill of their employees with some consistency (Kaur and Singla, 2019) The aim of these training programmes may be from the soft skill development to the career development (Gerrish, 2016). The mode of training may be conducted by coaching, counseling, group discussions and group dynamics (Al Doghan and Alban, 2015).

### **1.7 Performance Evaluation Practices (PEP)**

These are practices adopted by the organizations to evaluate the performance of their employees (Shrirastava, 2018). It covers wider techniques from creativity rating to 360° rater.

## **2. Managerial Effectiveness (ME)**

It shows the effectiveness of the management to fulfill the business/organizational objectives (Johnson, 2000). It is the outcome of application of various scientific management principles in the organization (Neely, 1998). The managerial effectiveness is reflected by various dimensions namely work culture, management styles, information systems (Pollitt, 1986).

The variables in the abovesaid constructs are drawn from the related reviews. The variables are measured at five point likert scale.

### **Analysis and Results**

The initial analysis is made to test the reliability and validity of variables included in eight constructs developed for the study with the help of confirmatory factor analysis, and cronbach alpha. The resulted figures are presented in Table.

**TABLE**  
**Justification of Variables in all Constructs**

<i>Sl. No.</i>	<i>Constructs</i>	<i>No. of Variables included</i>	<i>Range of standardized factor loading</i>	<i>Composite reliability</i>	<i>Average variance extracted in %</i>	<i>Cronbach alpha</i>
1.	Performance Management Programmes	7	0.6891*- 0.8673*	0.8144	55.93	0.8402
2.	Parameters for performance	6	0.6117*- 0.9244*	0.7962	54.32	0.7944
3.	Self evaluation	5	0.6482*- 0.8943*	0.7886	53.49	0.7816
4.	Rewarding	6	0.6603*- 0.8781*	0.7739	52.88	0.7673
5.	Improvement practices	6	0.6546*- 0.9141*	0.7903	54.01	0.7902
6.	Training practices	5	0.6334*- 0.9249*	0.8026	54.94	0.8492
7.	Performance evaluation practices	7	0.6309*- 0.9084*	0.8013	54.56	0.8048
8.	Managerial effectiveness	6	0.6734*- 0.9117*	0.8071	55.04	0.8296

\*Significant at five per cent level.

The content validity in all constructs are confirmed since the standardized factor loadings are greater than 0.60. The convergent validity in all eight constructs is justified since the composite reliability and average variance extracted are greater than its standard minimum of 0.50 and 50.00 per cent respectively. It is also confirmed by the significance of standardized factor loading of variables in all eight constructs (Ghost and Grandhan, 2011). The cronbach alpha of all eight constructs is greater than its minimum threshold of 0.60 which confirm the internal consistency in all constructs (Khafafa and Shajii, 2013).

### Measurement of the Constructs

The level of seven components of performance management practices and the level of managerial effectiveness at the banks are examined by the mean, standard deviation and co-efficient of variation of all eight constructs. The Variance Inflation Factor (VIF) and the level of tolerance of the seven components of performance management practices have been estimated to justify the degree of mutual exclusiveness among them. The results are given in Table.

**TABLE**  
**Measurement of the Constructs**

<i>Sl. No</i>	<i>Construct</i>	<i>Mean</i>	<i>Standard deviation</i>	<i>Co-efficient of variation in%</i>	<i>VIF</i>	<i>Level of tolerance</i>
1.	Performance Management Programmes	3.1886	0.4092	12.83	5.1743	0.1932
2.	Parameters for performance	3.2044	0.5763	17.98	5.6089	0.1782
3.	Self evaluation	3.1149	0.5241	16.83	6.1173	0.1635
4.	Rewarding	3.0948	0.6029	19.48	6.2948	0.1439
5.	Improvement practices	3.2693	0.5117	15.65	6.7302	0.1486
6.	Training practices	3.3442	0.5808	17.37	5.8997	0.1695
7.	Performance evaluation practices	3.3969	0.5024	14.79	5.5414	0.1805
8.	Managerial effectiveness	3.2694	0.6084	22.58	—	—

The highly implemented components of performance management practices at the banks are performance evaluation practices and training practices since its mean scores are 3.3969 and 3.3442 respectively. The consistency in the view on the implementation of performance management practices is noticed since its co-efficient of variation is 12.83 per cent only. The VIF of all components of performance management practices are greater than 0.50 whereas its level of tolerances are lesser than 0.2. Both these two results



indicate the degree of mutual exclusiveness among the seven components of performance management practices (Khan and Fasih, 2014).

### **Impact of Performance Management Practices on Managerial Effectiveness at Banks**

The relative importances of implementation of performance management practices on the managerial effectiveness in the banks are evaluated with the help of multiple regression analysis (Firdous and Farooqi, 2017). The included independent variables are the level of implementation of components of performance management practices whereas the dependent variable is the level of managerial effectiveness at banks. The least square method is followed to estimate the regression function. The results are summarized in Table.

**TABLE**  
**Impact of Performance Management Practices on Managerial Effectiveness at banks**

<i>Sl. No.</i>	<i>Independent</i>	<i>Unstandardized coefficient</i>	<i>Standard error</i>	<i>t' value</i>	<i>p' value</i>	<i>Standardized coefficient</i>
	Constant	16.8941	3.4514	4.8949	0.0000	—
1.	Performance Management Programmes	0.3942	0.1739	2.2668	0.0504	0.3406
2.	Parameters for performance	0.1739	0.1403	1.2395	0.1897	0.1245
3.	Self evaluation	0.2645	0.0799	3.3104	0.0302	0.2209
4.	Rewarding	0.2408	0.0547	4.4022	0.0244	0.2117
5.	Improvement practices	0.2676	0.2174	1.2309	0.1974	0.2244
6.	Training practices	0.3149	0.1208	2.6068	0.0417	0.2703
7.	Performance evaluation practices	0.3844	0.1097	3.5041	0.0000	0.3449
	R <sup>2</sup>	0.8244	—	—	—	—
	F-statistics	17.3849	—	—	0.0000	—

The table shows that the significantly influencing components of performance management practices on the level of managerial effectiveness at the banks are performance management programmes, self evaluation, rewarding, training practices and performance evaluation practices since its regression co-efficients are significant at five per cent level. The important components influence the level of managerial effectiveness at banks are performance evaluation practices and performance management programmes since its standardized regression co-efficients are 0.3449 and 0.3406 respectively. The changes in the implementation of performance management practices explain the changes in the level of managerial effectiveness at banks to an extent of 82.74 per cent since its  $R^2$  is 0.8244. The significance of 'F' statistics reveals the statistical fitness of the fitted multiple regression model.

### **Theoretical Contribution of the Study**

The study contributes two important aspects for the performance management. The reliability and validity of the variables in all seven components of performance management practices extend the knowledge on performance management systems and practices contributed by Waleed and Babasaheb (2023), Adam (2020) and Mangipudi et al., (2019). The significant impact of performance management on organizational performance is presented in the forms of managerial effectiveness of the organization. This version is the extended contribution of Ahmad (2012); Fryer et al., (2009); and Khunoethe et al., (2021). The higher relative importance given on the level of implementation of performance management programmes and performance evaluation practices in the present study are the new contribution to the banking sector which are the extended version of Rafia (2018) and Mamofobeng et al., (2018). The significant influence of self evaluation and rewarding practices on the managerial effectiveness at banks are the additional new contributions to the impact of performance management theory (Mufeed and Saloome, 2017; Lawler, 2003).

### **MANAGERIAL IMPLICATIONS**

The study contributes some policy implications to the decision makers in banking industry. The findings of the study reveals the positive significant impact of performance management on managerial effectiveness at banks which helps the decision makers to design the appropriate performance management practices in order to face the

competition in the banking industry. The top level management in banks is advised to give more importance on performance management programmes, performance evaluation practices and training practices to enrich the performance of their employees. The performance management programmes like skill, personality, managerial development should be designed as per the need of their employees. Secondly, the banks are advised to establish the performance evaluation system in a scientific manner which should create a trust among the employees also. Finally, they should concentrate on training methodology. These are the possible ways to enrich the productivity of employees and organization in the banking industry.

### **CONCLUDING REMARKS**

The present study concluded that the seven components of performance management practices in banking industry confirmed its reliability and validity. The rate of implementation of such practices is not at higher level because of the lack of understanding on such practices among the top level management. The study also concluded the important components influence the managerial effectiveness namely accountability, responsibilities, performance culture, knowledge management, information system, performance management programmes, training and performance evaluation practices. If the top level management focuses on these aspects, they can improve the productivity of their banks at minimum cost which is highly needed in the competitive banking industry.

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