Performance appraisal system of Mercantile bank limited: An evaluation

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Keywords
Performance Appraisal, Staff, Effectiveness, Satisfaction, Bank

Abstract
Performance appraisal is very much essential for the HR managers to adopt administrative decisions regarding promotion, fringe, pay-offs, and merit pay increment of the employees. The article attempts to evaluate the existing performance appraisal system of Mercantile Bank Limited, one of the leading private commercial banks in Bangladesh. Efforts were made to reveal the problems and suggestions for the improvement of the performance appraisal system of the said bank. Both qualitative and quantitative techniques of gathering and interpreting data were applied. The key findings of the study suggest that there are some pragmatic gaps in the process of performance appraisal. The employees gave divided views on their satisfaction level about the performance appraisal procedure. The employees, in general, perceive the process of the appraisal system a tool of biased judgement for assessing their performances. The practical implication of the study is that it will facilitate the management of the bank to formulate time worthy performance appraisal policy so that the managers can conduct effective performance appraisal program ensuring satisfaction of the bank staffs.

Introduction
One of the key responsibilities of the modern managers is to undertake human resource decisions. The success and failure of the human resource managers depend on how effectively and efficiently they perform 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 & 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, & 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 regarding improvement), so, the meetings for discussing performance appraisals tend to be uncomfortable for managers and employees, alike.

Two evaluation systems exist side by side: the formal and the informal in many organizations. 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 managers liking, or disliking are material here and employee’s performances are immaterial. In contrast, a
formal performance evaluation is a system set up by organization to evaluate employees’ performance regularly and systematically. Most of the organizations follow formal evaluation system because they think that performance appraisal is the essential matter for the organizational success. Managers should maintain the visibility in the performance evaluation program because it may accelerate the authenticity of the program.

Statement of the problem

The banking sector of Bangladesh is one of the fastest growing and high-tech developed business sectors. The number of banks in Bangladesh is gradually increasing. In addition to bank, the number of financial institutions is also increasing day-by-day. Among the banks and financial institutions in Bangladesh, the Mercantile Bank Ltd. is a very growth-oriented bank. The authority of the bank has been trying to expand business activities within and outside the country through opening newer branches and wings. As a result, they need to hire sufficient skilled and efficient human resources to fill in the vacant positions of the bank frequently. After selection of the employees, the HR department of the bank is responsible to evaluate their performance fairly through the raters/evaluators for taking decision relating to salary, promotion, transfer, fringes, payoffs, merit pay, training and development, etc. of the employees. Previously, many researchers conducted their studies on performance appraisal processes, strategies, systems, management, practices in Bangladesh and abroad (e.g. DeNisi & Murphy, 2017; Sattar, Khaliq, & Butt, 2018; Cintron & Flaniken, 2017; Jahan, 2016; Abdullah & Farhana, 2012; Haque, 2012; Idowu, 2017; Iqbal, Akbar & Budhwar, 2015; Moyal and Iyengar , 2016; Vashistha & Devdutt, 2018; Gachengo & Wekesa, 2017, Mishra, 2013; and Jisun & Akter, 2016 ). But these studies did not highlight the performance appraisal system of Mercantile Bank Limited. That is why, the researchers were selected the topic “Performance Appraisal System of Mercantile Bank Limited: An Evaluation” to carry out the present study. In the current study, an attempt has been taken to find out and evaluate the existing performance appraisal systems of Mercantile Bank Ltd.

Objectives of the study

General Objective: The overall objective of the study is to evaluate the existing performance appraisal systems of Mercantile Bank Limited.

Specific Objectives: The specific objectives of the study are as follows:

a) To explore the employees’ opinion about the existing performance appraisal systems of Mercantile Bank Limited
b) To identify the problems of existing performance appraisal systems of the bank
c) To recommend befitting measures to overcome the problems of existing performance appraisal systems of the bank

Methodology of the study

i) Research Design: The researchers applied both the qualitative and quantitative approaches to carry out the study. For qualitative approach, data were collected through face-to-face interview and content analysis of the performance appraisal. For gathering quantitative data, structured questionnaires were used to survey the views, statements, and opinions of the sample population.

ii) Sampling Technique: The researchers applied purposive sampling technique to select the respondents in this study for collecting data/information. The reason behind is this that the purposive sampling technique provides the freedom to the researcher to choose the items/ numbers in accordance with her/his own convenience. There is no requirement to prior planning for selecting items/ numbers in this case.

iii) Sample Size: The sample size of the study was 100 respondents consisting of 10 managers, 20 executive officers, 40 probationary officers and 30 junior officers.

iv) Sample Distribution: The sample distribution of the study is shown in the following Table 1:
Table 1: Sample Distribution

| SL No. | Category of Employees      | Number |
|--------|---------------------------|--------|
| 1.     | Manager                   | 10     |
| 2.     | Executive Officer         | 20     |
| 3.     | Probationary Officer      | 40     |
| 4.     | Junior Officer            | 30     |
| Total  |                          | 100    |

v) Data Sources: There are two sources of data. These are follows:
   a. Primary sources
   b. Secondary sources

vi) Data Collection Method: The primary data were collected using structured questionnaire contains 10 questions. The secondary data were gathered from different books, journals, articles, and annual reports of the bank.

vii) Data Analysis: The gathered data were analyzed applying computerized software and Frequency and Percentages were calculated accordingly.

viii) Data Presentation Style: The data were presented through tables.

Literature review

Performance appraisal is one of the most important tools and techniques of human resource management program. The term was coined by Beer & Ruh in 1976 but was hardly used until the mid-1980’s (Armstrong, 2009). It is defined as “a strategic approach to delivering sustained success to organizations by improving the performance of human resources who work in them and developing the capabilities of teams and individuals’ contributions (Armstrong & Baron, 1998)”. It serves as continuous assessment of employees’ performance by the evaluators/managers. It is usually driven by the managers or supervisors since they have closely connected to observable performance information of the employees. They need to connect it to pay and rewards have been the thrust of most human resource management discourse. It includes the use of continuous assessment by managers/supervisors using appraisal framework developed by the organization. Bhattacharjee & Karmaker (1989) identified that performance evaluation, merit rating, and performance appraisal are mostly used in measuring the performance of an employee. Beach (1965) argues that performance appraisal is a systematic evaluation of the individual with respect to her/his performance on the job and her /his potential for development. Douglas, Stuart, & Hunt (1985) explain that performance appraisal is a systematic review of employee’s meaningful job behavior to respects their effectiveness in meeting their job requirements and responsibilities. Performance appraisal has been with us for more than 100 years in different forms. Gellerman (1988) states that still performance appraisal remains endlessly controversial. 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 & Hakim, 2002).

Performance appraisal is essential for every organization. But it is more important in financial organization because every financial institution in the world opts to achieve the overriding goal by providing quality products and services to the customers. Yaseen (2015) conducted a study on “Performance Management Practices and Its Impact on Banks’ Performance in Pakistan”. The study findings show that there is a positive relationship between loyalty, motivation and effectiveness with true ‘Performance Management Systems’ and analysis of the data also shows that absence of guidance and feedback in current appraisal systems leads to dissatisfaction amongst the employees. All formal procedures include into performance appraisal which used to evaluate personalities, contributions and potential of group members in the organizations. Performance appraisal is one of the key factors of the organization ability and usually reviews past behavior and it provides an opportunity to reflect on past performance of the employees (Shrivastava & Rai, 2012). Kalra (2017) conducted a study on “Performance
Management System in Banks of India”. Results reveal that performance appraisal is an integral part of every organization. Properly developed and implemented performance appraisal can help an organization to achieve its goals by developing productive employees. Previously, many researchers conducted their study on performance appraisal system of particular sector. But no such study was designed on the evaluation of a single bank’s performance appraisal system. Considering this gap to be bridged, the present study has been conducted to explore and evaluate the performance appraisal system of Mercantile Bank Limited.

**Common uses of performance appraisal**

DeCenzo & Robbins (1998) pointed out the following common uses of the performance appraisal:

1. One of the most common uses of performance appraisal is for making administrative decisions relating to promotions, fringes, payoffs, and merit pay increases.
2. Performance appraisal information can also provide required input for determining both individual and organizational training and development needs.
3. 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.
4. 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 performance appraisal system of mercantile bank limited**

The Mercantile Bank Ltd. (MBL) conducts a performance appraisal program for the purpose of evaluating the performance of executives, officers, and staffs. Regular employees’ performances are evaluated annually. The newly recruited probationary officers have 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 and environment, departments, conduct with senior colleagues, communication techniques/ skills, silence, filling procedure/ record keeping, cleanliness etc. The evaluation is generally carried out according to BA (Below Average), Good, Excellent and Outstanding indicators where BA (Below Average) = 50%, Good=60%, Excellent=80% and Outstanding=100% on criteria-wise performance of each trainee.

Other newly recruited employees also have to undergo training on foundation course for six months. The employees need to complete a specialized training for three months. All employees are appraised monthly to see their performance during the probationary period. Two types of forms are used by the bank for appraisal. One form is for the staff while the other is for assistant officers and above. The HR department of MBL has designed and developed these forms. But qualitative and quantitative items are included in both forms to evaluate the performance of employees.

The authority of MBL uses performance appraisal form for the lower level employees, which contains appraisal criteria such as job knowledge, quality and quantity of works, learning attitude, ability, skills, dependability and expectation for future growth. These items are explicitly defined in the appraisal form. The managers/supervisors of the bank carry out/conduct the performance evaluation 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). The reporting officer of the bank appraises the annual performance of the reportee on the basis of this rating procedure.

A quite lengthy and comprehensive appraisal form is used by the reporting officer of the bank to appraise the performance of executives and officers. There are four parts of the form of which part-A of the form contains 16 items 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 and designation, present place of posting and date of joining, previous posting in MBL, promotion received in MBL, training/ workshop attended, and business performance. Part-B of the form contains instruction for the reporting officer, appraisal criteria and rating scale. In this part overall performance of the employees 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 personal knowledge, reliability, commitment, sense of belonging and responsibility, quality and quantity of work, analytical ability, power of judgment, decision making, honesty and integrity, financial discipline, attendance, communication ability, leadership, interpersonal relationship, marketing ability, presentation and outer ability, learning ability, initiative, drive, enthusiasm, knowledge of banking, skill and awareness to rules and policies and its implementation, and administrative/ disciplinary action. A four-point scale is applied to evaluate each of these items as stated 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 supervisor of the reporting officer. S/he may agree or disagree with the assessment of the reporting officer. If s/he does not agree with the assessment, s/he must give reasons for disagreement. Part-D is to be used by the management committee of the Head Office. The reporting officer provides marks on the appraisal report out of 100. Later on, the human resource department of the Head Office recommends performance increment for the reportee. Marks distribution is shown in the Table 2:

**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)

Appraisal scoring of more than 90 percent recommends for 10 percent performance increment while 80 percent recommends for 5 percent performance increment and 70 percent score recommends for 2.5 percent increment. This part also contains necessary instructions for the reporting offices. These instructions are as follows:

i) Please write ACR of those employees who have served under you for a minimum period of (six) months.

ii) While writing ACRs of your subordinates, 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.
Discussion of findings

The present study has covered respondents of both the male and female with diverse age ranges. The profile of the respondents is shown in the Table 3:

Table 3: Respondents’ Profile

| Particulars | Category | Frequency | Percentage |
|-------------|----------|-----------|------------|
| Gender      | Male     | 60        | 60%        |
|             | Female   | 40        | 40%        |
| Age Range   | Below 30 | 70        | 70%        |
|             | 30-35    | 15        | 15%        |
|             | 36-40    | 10        | 10%        |
|             | 41 and Above | 5    | 5%         |

The above table shows, most of the respondents belong to an age range of below 30. The table also shows that the number of the male employees are more than that of the female ones.

Opinion of employees has been explored regarding the existing performance appraisal system of MBL through interpreting the answer of the questionnaires using percentages. The opinion of the employees on the existing performance appraisal system of MBL is shown in the Table 4:

Table 4: Employees’ Opinion on Existing Performance Appraisal System of MBL

| SL No. | Items                                                                 | Option | Frequency | Percentage |
|--------|-----------------------------------------------------------------------|--------|-----------|------------|
| 1.     | Satisfaction with the behavior of supervisor                         | Yes    | 45        | 45%        |
|        |                                                                       | No     | 55        | 55%        |
| 2.     | Awareness of employees regarding the used performance appraisal method by the bank | Yes    | 46        | 46%        |
|        |                                                                       | No     | 54        | 54%        |
| 3.     | Process of performance appraisal followed by the bank is good         | Yes    | 42        | 42%        |
|        |                                                                       | No     | 56        | 56%        |
| 4.     | Agree with performance appraisal system followed by the bank          | Yes    | 30        | 30%        |
|        |                                                                       | No     | 70        | 70%        |
| 5.     | Agree on the objective of the performance appraisal of the bank       | Yes    | 20        | 20%        |
|        |                                                                       | No     | 80        | 80%        |
| 6.     | There is opportunity to communicate with the supervisors/ managers regarding the performance appraisal results | Yes    | 0         | 0%         |
|        |                                                                       | No     | 100       | 100%       |
| 7.     | Agree with the evaluation system followed by the superiors/ managers | Yes    | 40        | 40%        |
|        |                                                                       | No     | 60        | 60%        |
| 8.     | There is a system of feedback of the performance appraisal of the bank | Yes    | 0         | 0%         |
|        |                                                                       | No     | 100       | 100%       |
| 9.     | There is jointly setting the performance appraisal objective of the bank | Yes    | 0         | 0%         |
|        |                                                                       | No     | 100       | 100%       |
| 10.    | Supervisors/ managers are able to conduct the performance appraisal fairly | Yes    | 25        | 25%        |
|        |                                                                       | No     | 75        | 75%        |

The majority respondents (55%) replied that they were not satisfied with the behavior of the supervisors. So, the authority of the bank should take it seriously and provide necessary training and development to the supervisors to enhance their behavior.

Most of the respondents (54%) replied that they were not aware of the used performance appraisal method. So, the authority of the bank should give the direction to the managers/supervisors to discuss with the employees regarding the used performance appraisal method. As a result, the ambiguity in this case will be resolved.
The majority respondents (56%) opined that the performance appraisal process which is being used by the supervisors/managers to conduct the performance appraisal program of the bank was not appropriate. So, the authority of the bank should take immediate action to resolve this problem.

The majority respondents (70%) opined that they did not have clear information about the performance appraisal system of the bank. In this case, the authority of the bank should take quick decision and arrange a joint meeting with the employees and their supervisors to remove confusion.

Most of the respondents (80%) replied that the performance appraisal conducted by the managers/supervisors had no concrete objective. In this case, the authority of the bank should take it seriously and set the effective objective of the performance appraisal program of the bank.

All the respondents (100%) replied that they had no opportunity to communicate formally with the supervisors/managers regarding the appraisal results. Employees must have the right to see their performance appraisal results so that they can undergo appropriate measures to enhance their performance. In this regard, the authority of the bank should give the guideline to the supervisors/managers so that they can discuss about the performance appraisal results with the employees.

The majority respondents (60%) replied that the supervisors/managers were not able to evaluate them using useful performance appraisal technique. So, the authority should provide training to the supervisors/managers so that they will be able to evaluate the performance of the employees effectively and efficiently.

All the respondents (100%) replied that the supervisors/managers did not provide any performance appraisal feedback to the employees. As a result, they did not understand what their strong and weak performances. So, the authority of the bank should provide the guideline to the managers/supervisors to give the performance appraisal results to the employees.

All the respondents (100%) replied that the supervisors/managers did not discuss with them to set the objective of the performance appraisal program though the objective of the performance appraisal program must be clear to all the employees of the organization. In this case, the authority of the bank should change the policy so that the supervisors/managers and employees can jointly set the standard objective of the performance appraisal program before starting.

All the respondents (100 %) viewed that the supervisors/managers were not able to conduct the performance appraisal program unbiasedly. So, the authority of the bank should take it seriously and give the training and development, counseling, etc. to the supervisors/managers so that they can avoid discrimination while conducting performance appraisal program of the bank.

Limitations of the study
There are some limitations of the study which include the followings:

Firstly, this study was conducted only on twenty branches of the bank 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 perspectives of the employees regarding the existing performance appraisal system of the bank.

Secondly, although the entry-level to the manager-level employees were included in the present study, 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.

Thirdly, 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 regarding the performance appraisal system of the bank.

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

Fifthly, 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 regarding the performance appraisal in the banking sector can also be studied.
Lastly, the researchers had approached several times to the authority of MBL to get a copy of performance appraisal form. But they were reluctant to provide their performance appraisal form to the researchers showing the reason that the policy of the bank did not support that. That is why, the researchers could not insert a copy of the performance appraisal of the bank in the appendix part of the study as evidence.

Conclusions
Performance appraisal is very much essential for every organization and employee. So, the authority of the organization should develop and implement an effective appraisal system which will help the company to achieve its goal through developing productive employees. The managers/supervisors of every branch of the bank should apply fair policy to evaluate the performance of their subordinates. There are several types of performance appraisal systems. Each has its advantages and disadvantages. Some suggestions have been made to overcome the existing problems of performance appraisal system of the Mercantile Bank Limited which included to develop the behavior of supervisors/managers, use multiple raters, use visible and standard performance appraisal method, follow appropriate performance appraisal process, discuss with the employees about the performance appraisal system, set specific objective of the performance appraisal program, allow employee formally communicate with the supervisors/managers to discuss about performance appraisal results, evaluate performance of the employees properly, provide feedback to the employees with necessary suggestions to improve the performance, jointly set the objective of the performance appraisal program, and conduct the performance appraisal program fairly.

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**Appendix**

1. **Sample of ACR (Annual Confidential Report)**

This is to certify that Mr. / Ms. X, Employee ID: 094-14-0000 has worked under me in the Mirpur Branch, Dhaka as an Officer from January 01, 2018 to December 31, 2018. 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 **Senior Officer

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

- Appears to have reached her/ his 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 ………………….

**Recommended for Annual Grade Increment**

**Recommended for Special Increment (s)**

**Appears to have reached her/ his limit.**

**Recommended for Annual Grade Increment**

**Recommended for Special Increment (s)**

- **Recommended for Annual Grade Increment**

- **Recommended for Special Increment (s)**

(Md. T.A. Khan)

Reporting Officer 2