Impact of Performance Management System and Employee Satisfaction towards Employee Retention in a Small Finance Bank

Ayushi Maheshwari

Abstract: This paper provides an explanation on how performance management system affects employee satisfaction and employee retention. The study here is done to explore relationships between them in Banking Industry. The responses taken showed direct and through relation among themselves including common dependence on some human resource management factors. Impact of Performance Management System on organizational behavior has been under investigation but there are some findings which say that Performance Appraisal plays crucial role on employee satisfaction, performance and retention. More the employee satisfaction level the more is the intention of employees to stay in organization. The responses gathered were 40 from different grades like MT(Management Trainee), AT(Apprentice Trainee), A1(Executive), A2(Senior Executive), A3(Staff Manager), B1(Deputy Manager), B2(Manager), C1(Senior Manager), C2(Executive Assistant Vice President), C3(Deputy Assistant Vice President), D1(Vice President), D2(Senior Vice President 1), D3(Senior Vice President 3), E1(Executive Vice President), E2(Vice President), G(Executive Group Head) and F(Executive Director). It was found that R value of Employee Retention is 57.7% and the most contributing factor is Employee Satisfaction than Performance Management System.

Keywords: Performance Management System, Employee Satisfaction, Employee Retention, Small Finance Bank, Employee Engagement

I. INTRODUCTION TO THE PROJECT

1.1 Sector Information
Banking sector value has increased to US$ 1.56 trillion in FY18, total lending capacity has augmented at a CAGR of 10.94 percent whereas total deposits amplified at a CAGR of 11.66 percent. The overall banking sector assets have increased at a CAGR of 7.01% and interest income of the sector has grown to 7.55 percent CAGR. In SFB sector, which is a kind of niche banks providing basic services in banking of acceptance of lending of deposits. The motive of these financial inclusion is to serve those sections of economy which are not assisted from another bank like marginal and small farmers, small business units, small industries and micro and unorganized sector entities.

Objectives of SFB is furthering financial inclusion via provision of savings vehicle underserved and unserved sections of population, supplying credit to small industries, marginal framers etc. through low-cost operations and high technology. Plans of small finance banks for expansion of annual branch in first five years would require RBI approval. This plan of annual branch expansion should remain in compliance with the need of opening minimum 25 percent branches in rural unbanked centers. The equity capital is to be minimum paid-up for SFB should be Rs. 100 crore and lowest capital adequacy ratio to be 15 per cent. In case of promoter’s contribution in SFB in starting least contribution under paid-up equity capital should be 40 percent and if it exceeds then it should be lowered down to 40 percent in coming 5 years. Further in a span of 10 years, promoter’s stake must be lowered to 30 percent and within 12 years to 26 percent. SFB when reaches its net worth of Rs500 crore then listing gets mandatory in three years of its reach. Here the paid-up capital sets to automatic 49 percent and maximum to 74 percent with approval (Reserve bank of India, 2014).

1.2 Company Information-
This Small Finance Bank in FY95-96 to FY01-02 was started by a first-generation entrepreneur as a non-deposit taking NBFC in one-room office with no capital. The business was built with HNI support for six years. In FY02-03 to FY06-07 it became channel business partner for one of the leading bank in Rajasthan and subsequently in Maharashtra. In FY07-08 to FY14-15 investment was attracted from Marquee including Motilal Oswal, Warburg Pincus, Kedaara Capital, IFC and Chrys Capital. Successful subsidiary/ associate companies were built like Housing and Insurance. In FY15-16 and FY16-17 it bagged SFB license (the only asset financing NBFCs amongst 10 licenses) and started the bank transition process. It was converted into a domestic owned company. While in FY17-18 it commenced SFB operations with a wide bouquet of retail loans, SME & Mid corporate loans, deposit products, payments and transaction banking. It was registered as corporate agent with IRDAI for Bancassurance and received ‘Schedule Bank’ status. Long term credit rating upgrade from IND A+ to Positive for IND AA-/ Stable also it was featured as ‘fortune India 500 company. This Small Finance Bank has 500 touch points in India: 249 Rajasthan, 63 Gujarat, 51 Maharashtra, 59 Madhya Pradesh, 28 Punjab, 21 Haryana, 11 Delhi/NCR, 7 Chattisgarh, 5 Himachal Pradesh, 2 Uttar Pradesh and 1 Goa. Our Vision: To be the world’s most trusted retail bank and conveted employer, that is admired as the epitome of financial inclusion and economic success, where ordinary people do extraordinary things to transform society at large, thereby guaranteeing trust, confidence and customer delight. Our Mission: To build one of India’s largest retail franchise by 2022 that is admired for making every customer feel supreme while being served, aspiring that no Indian is deprived of banking, bias for action, dynamism, detail orientation and product & process innovation, globally respected standards of integrity, governance & ethics, being and equal opportunity employer, providing a collaborative and rewarding platform to all its employees, fastest growth to Rs1 trillion book size and a client base of...
Impact of Performance Management System and Employee Satisfaction towards Employee Retention in a Small Finance Bank

10Mn+ delighted customers. Its Dharma involves: Integrity, Customer Focus, Bias for action, responsibly entrepreneurial, work hard and look for details, nurture talent and success together. Net worth is 2281 crore, market capitalization was 17,655 crores, total income is 2155 crore, profit after tax is 292 crore, turnover is 3 crore and EPS is 10.2. Their physical distribution network includes 11 states, 306 branches, 71 branching outlets & 97 asset centers, 23 offices, 292 ATMs, 2000 Tablets, Internet Banking and Mobile App. It has team strength of 11,151 employees. It has diversified bouquet of products:

1. Asset Product Offerings
   - Retail Assets
     - Wheels
     - Secured Business Loans- MSME
     - Secured Business Loans- SME
     - Home Loans
     - Gold Loans
     - Two Wheeler Loans
     - Agri SME Loans
   - Small & Mid-Corporate Assets
     - NBFC/MFI/HFC Lending
     - Construction Finance

2. Liabilities Product Offerings
   - Savings Account
   - Current Account
   - Fixed and Recurring Deposits
   - Lockers
   - Debit Cards
   - ATMs
   - Insurance
   - Mutual Funds

3. Digital Footprint
   - TAB Banking
   - Mobile Banking
   - Abhi
   - Net Banking
   - Consumer Durable Loans
   - PoS

It was awarded as Best brand BFSI- Economic Times, The Bank with more Rural Branches- ET Now, and Bank with best technology orientation- ET Now, Dream Companies to work for Award- Times Ascent. To establish a striking brand identity, on-ground outreach initiatives taken were: Social Connect, Jagriti, Vehicle Activity, Samarth, ATM-Saturday and Samanvaya. Brand Association taken by Jaipur Literature Festival, Jaipur Marathon, FADA- National Auto Summit 2018 and Bank Utsav.

The risk management system above implies a proactive approach towards future events. All necessary components for comprehensive risk governance are embedded in the bank’s risk management framework. For Employee Engagement they organize Sports like tennis, badminton championships, cricket tournaments and football leagues. This connect is done to engage new members with the organizational structure, culture and principles. Its Dharma is to impart core values in all the employees and also RBI-mandated trainings are done to each employee for keeping them abreast with changes in banking regulations. For Learning and Development, Functional training and Soft-skill training is done to maximize the use of digital platform and enhance communications skills.

Figure 1 Risk Management System

The Board of Directors is responsible for overseeing the bank’s risk management system.
been under investigation but there are some findings which say that Performance Appraisal plays crucial role on employee satisfaction, performance and retention. More the employee satisfaction level the more is the intention of employees to stay in organization (Cardy & Dobbins, 1994; Daoanis, 2012). The actions in the organization must be aligned with the culture, values, mission, vision and objectives. Employee Retention and Engagement comes with good career development path, job characteristics, management, recognition, work-life balance and financial rewards coming from organization and its employees (Aguenza & Som, 2012). Also it was noted that highly skilled employees tend to be more involved, satisfied and committed with their jobs rather than low skilled employees, The unengaged employees soon leave organization if in case abilities are under-utilized. The main worry of any company comes when it deals with its capacity to attract, engage and retain right employees.

Right Distribution Mix -

| States          | Metropolitan | Urban | Semi-urban | Rural | Total Branches | Business Correspondents |
|-----------------|--------------|-------|------------|-------|----------------|-------------------------|
| Rajasthan       | 16           | 23    | 19         | 43    | 21             | 3                       | 17                      | 142                      | 56                      |
| Gujarat         | 8            | 20    | 4          | 5     | 3              | -                       | -                       | 40                       | -                       |
| Madhya Pradesh  | 5            | 16    | 7          | 9     | -              | -                       | -                       | 37                       | 10                      |
| Maharashtra     | 12           | 16    | 6          | 2     | 1              | -                       | -                       | 37                       | -                       |
| Punjab          | 1            | 11    | 4          | 2     | -              | -                       | 2                       | -                        | -                       |
| Haryana         | 1            | 11    | 1          | 1     | -              | -                       | 14                      | 3                       | -                       |
| Chattisgarh     | 1            | 4     | -          | -     | 1              | -                       | -                       | 5                       | -                       |
| NCT of Delhi    | 5            | -     | -          | -     | -              | -                       | 2                       | -                        | -                       |
| Himachal Pradesh| -            | 1     | -          | 2     | 1              | -                       | 4                       | -                        | -                       |
| Uttar Pradesh   | 1            | 1     | -          | -     | -              | 2                       | -                       | -                        | -                       |
| Chandigarh      | -            | 1     | -          | -     | -              | 1                       | -                       | -                        | -                       |
| Goa             | -            | -     | 1          | -     | -              | 1                       | -                       | -                        | -                       |
| Total           | 50           | 104   | 42         | 64    | 26             | 3                       | 17                      | 306                      | 71                      |

Key Capital Engaged -

**Human Capital**

With 11,151 strong workforce continually work to develop competencies and capabilities in order to serve clients better.

**Financial Capital**

Funds are efficiently deployed whether obtained through financing or generated from operations and investments.

**Intellectual Capital**

Deep analytics is used in credit appraisal, monitoring and collection process. Also, digital technologies is used to safeguard clients privacy.

**Manufactured Capital**

Extensive network of approximately 500 customer touch points. Infrastructure growing of 292 ATMs and strengthening service process.

**Natural Capital**

Operations here don't have a particular consumption footprint, natural resources like water and energy is used.

**Social & Relationship Capital**

Baking access is given to people at bottom of pyramid. Engage proactively with all shareholders to ensure highest standards of corporate governance.

Figure 2 Key Capital Engaged

3. Review of Literature

Employees carry different prospective about jobs, organizations and their career but the most important employee attitude is job satisfaction. When jobs evaluation is done right then
there will be retention in organization and employees would be productive. This Small Finance Bank is new but has 306 bank branches, 71 business correspondents, 97 asset centers and 292 ATMs which stands crucial to study performance appraisal effect on job satisfaction and retention.

3.1. Performance Management System-

Performance Appraisal contains regular reviews and assessments of the employee’s performance in an organization. It helps to rate the employees and understand their capacities for further training, improvement or development. A good Performance Management System brings sound assessments from supervisors, peers, clients or subordinates and thus helps in compilation of the pay structure. Better pay structure would result in low labour turnover while increase in output. This system helps in developing successful performance method to accomplish strategic goals (Singh et al, 2010). Performance standards must be kept in-line with goals, roles and responsibility, specific and measurable. It is actually a discussion and review of assigned duties to the employees and then appraisal comes because of employee on-job and not on his personality characteristics. It would actually help to measure skills and accomplishments to accordingly enhance performance and stimulate professional growth (Cole, 2002). A performance appraisal is important in synchronizing organizations and individual aims, behavior development, staff motivation, developing positive relationships and attitude. The best part is that it gives a formal, detailed, recorded and in-depth review of every individual performance (Berman, 2005). Performance Management System is perceived as negative among employees because there is a very little employee engagement in articulating criteria, approving on performance standards as well as objectives while designing performance systems. To have positive perception in the minds of employees it is important to ensure that processes are clear in accordance with key performance indicators, timely feedback, clear explanations and reward systems. It provides help in salary revision as per market trends, taking disciplinary actions, identify poor performers, succession planning, organizational diagnosis and development and to take future decisions in promotions or rewarding desired employee (Manville & Greatbanks, 2013). There are two main factors which played important role in having Performance Management System. Firstly, it was emphasized that to get most out of employee’s organizations need to work alongside. Secondly, performance appraisals were used for the advancement in performance management (Farr & Levy, 2007). Now organizations use performance appraisal to give itself and employee both the information needed to make judgments associated to any area from performance management framework. Performance Management System is used to complete following four objectives according to Fletcher, 1997; Murphy and Cleveland 1991 which are Administrative, Organizational strategy, Organizational feedback, Training & development.

3.2. Employee Satisfaction-

Employee satisfaction is when employees are motivated to continue the daily work assigned or they have an urge to have new project or assignment. Job satisfaction comes when employees are encouraged and equally recognized for continuously contributing towards the organization. Job satisfaction emphasize on employees role at workplace and their orientations towards work (Vroom, 1968). It is a kind of feeling being possessed about the work whereas job dissatisfaction is negative and unfavorable attitude carried towards the job. Efficiency and effectiveness of employees increases when they are treated well, their needs, wants, personal desires are been recognized (Armstrong, 2006). It can impact labour market behavior as well as work productivity, employee absenteeism, staff turnover and work effort. Also job satisfaction is termed to be a strong predictor for determining overall employee well-being and good predictor of decisions or intentions of any employee to stay or leave job (Cole, 2002). Employee absenteeism brings more costs to the company and best way to reduce it is increase job satisfaction level. It is not necessary that high job satisfaction will result into low absenteeism but low job satisfaction would bring high absenteeism.

3.3. Employee Retention-

Retention is the procedure of keeping employees physically in an organization being a necessity for success of organization. It becomes soul driving force to attain the accomplishment and development of the organization’s objectives and goals. Employee Retention is the ability of an organization management team to retain employees who tend to leave. More the retention rate, more the management team is able to successfully retain its employees. In Small Finance bank every one employee is retained from three employees who gives letter of resignation. Retention is there to provide employees feeling of possession and ownership in the company to make them stay longer but it is becoming more vigorous. Today being a competitive world where technology and awareness is running, retention becomes biggest issue. People understand their current value, market value, their department value and organization value because they are the one who generates revenue and profits. Moreover retaining high performing employees is more challenging as these employees switch frequently from job to another It becomes the sole purpose for the process of talent management as only hiring does not do everything. Factors which depends on Retention include job specification, challenges in job, employee personal development, pay package, recognition, employee personal development, culture fit between talent and job. Purpose of Retention is mainly to avoid the cost of competent employees as it affects service delivery and productivity (Samuel & Chipunza, 2009).

3.4. Effect on Performance Management System-

Performance appraisal has effect of job satisfaction over employee retention as the more an employee is happy and contended in an organization the more job satisfaction is shown. There is also influence of job satisfaction over employee retention and strongest reason of satisfaction comes when there is a transparent reward system (Hussain and Rehman, 2013). This will be more effective if rewards are conferred on the performance basis, career ladder along with career path is determined to develop knowledge, expertise and skills.
4. Research Methodology
Target population here are the employees of corporate office and leading branches of this SFB in Rajasthan. The research is been carried from selected categories of the population region as there are many constraints like resources, contacts and time. It highlights research design whether it’s an Exploratory or Descriptive research design, the source of data is Primary and the methods been used to collect the data were from online platform (google forms), mailing, questionnaire, personal interview, telephonic etc. for this research. It helped in identifying the target population for the study, sample frame, sample size, sampling technique (Non-Probability / Probability) and how data obtained from the study were analyzed.

4.1. Research Design
The study here embraced a descriptive approach because of its capabilities to summarize huge amount of data and provide group or specific characteristics over a sampled population. It reduces biasness and helps in capitalizing on the evidence collected to establish degree of correlation/relationships among different variables. It is used to identify the new factors that are influencing employee perception on serving and being with the industry. It will help to know the image embedded in minds of individual, their objectives, requirements and specifications were defined clearly, familiarity with products and services, time taken to learn and adjust with the company environment, likelihood of monthly events, level of dedication and enthusiasm to work assigned, training programs helpfulness, working hours of organization, satisfaction with payroll and salary system, grievance issues and reasons of departing as well as staying in organization.

4.2. Target Population
The target population provides the overall context and inferences required to put the research data into information. According to this, employees of SFB who have been delivering the services whole-heartedly from its inception time were interviewed. The collected responses were from different departments and grade levels to further view their prospects. The random sample comprises of 80 of the initial population which goes with 62.5% response rate. The requirement for sample population is that their employment is atleast for one year.

4.3. Conceptual Model

![Conceptual Model](image)

4.4. Sampling Technique
Sampling can be either a probability or on a non-probability In this Research, Random Sampling is been used which comes under Probability sampling. This technique was selected to cut a smaller sample size from huge population and hence make generalizations over larger group. It gives abilities to researcher to have accurate representation over large population. It stands good here because each member has an equivalent probability of selection.

4.5. Sample Frame
A sampling frame is actually specific population from the total population. This frame depicts list of everyone and everything that need to be studied. Population being general here would not fetch generalized result therefore frame being specific all the responses were collected from corporate office and branches in Rajasthan from all grades.

4.6. Sample Size
Staff and managers work environment and culture is similar across Rajasthan therefore responses were collected from different branches including Corporate Office. Interaction and Forms was circulated to MT(Management Trainee), AT(Apprentice Trainee), A1(Executive), A2(Senior Executive), A3(Assistant Manager), B1(Deputy Manager), B2(Manager), C1(Senior Manager), C2(Assistant Vice President), C3(Deputy Vice President), D1(Vice President), D2(Senior Vice President 1), D3(Senior Vice President 3), E1(Executive Vice President), E2(President), G(Groups Head), P(Executive President) and after clearing and filtering the responses only 40 responses were taken for the purpose of analysis.

4.7. Sample Location
Location chosen for research are the areas from Rajasthan like Jaipur, Ajmer, Kota,
4.8 Data Collection

Data Collection being main area of this paper took much time especially in designing questionnaire. This well-designed questionnaire was utilized in keeping all the specifications required for the research and further to collect useful insights. Here, data was collected by three methods- a Google form was made and circulated on Whatsapp, Mail and also verbally data was collected. Data was collected verbally because of employee’s busy schedule.

5. Data Analysis

5.1 Demographic Variable Analysis

Gender

20 Employees here were Female and 20 Employees were Male which means that responses of both Gender was 1:1.

Age

The responses collected from the age group of 20-25 were 30%, 25-30 were 45%, 30-35 were 12%, 35-40 were 8% and Above 40 is 5%.

Length of Service till Date
This chart represents the length of service till date of the employees where experience of Under a Year are 20% of total population, 1-5 Years are 60% of total population, 5-10 Years are 17% of total population and Above 10 Years are 3% of total population.

### Grades

| Grade         | Percentage |
|---------------|------------|
| MT/AT         | 10%        |
| A1/A2/A3      | 22%        |
| B1/B2         | 18%        |
| C & Above     | 5%         |

In the total sample population taken, 22% of employees were of MT/AT (Management Trainee/Apprentice Trainee) grade, 50% of employees were of A1/A2/A3 (Executive/Senior Executive/Assistant Manager), B1/B2 (Deputy Manager/Manager) and C & Above (Senior Manager & Above).

#### 5.2 Data Analysis

**SmartPLS (Partial least squares)** version 3.0 is used for the data analysis process. In this research the following analysis proved through SmartPLS - Internal reliability, composite reliability, discriminant validity, structural model and bootstrapping model.

#### Statistical Analysis: Psychometric Characteristics of Scales (Measurement Model):

**Internal and Composite Reliability:**

The internal reliability value of the items is measured using cronbach alpha value. Whereas, cronbach alpha value should be more that 0.7 (Christmann and Van Aelst, 2006) in this research the values of Performance Management System, Employee Satisfaction and Employee Retention are above 0.79 and according to Bagozzi and Yi (1988), for an empirical research the composite reliability, value should be more than 0.7. Hence it is proved that the instruments contain high level of reliable value (See table 2).

| VARIABLES                  | COMPOSITE RELIABILITY | CRONBACHS ALPHA VALUE |
|----------------------------|-----------------------|-----------------------|
| Performance Management System | 0.8935               | 0.84                  |
| Employee Satisfaction      | 0.9257               | 0.9051                |
| Employee Retention         | 0.9004               | 0.858                 |

**Convergent Validity:** Convergent validity is measured using AVE value
Impact of Performance Management System and Employee Satisfaction towards Employee Retention in a Small Finance Bank

(Average Variance Extracted) where, the AVE value should be more than 0.5 or greater for this study. The following table 3 describes the convergent validity of this research.

**Table 3: Convergent Validity**

| VARIABLES                      | AVE VALUE |
|--------------------------------|-----------|
| Performance Management System  | 0.6779    |
| Employee Satisfaction          | 0.6162    |
| Employee Retention             | 0.6485    |

**Structural Model:**
Smart Partial Least Square Version 3.0 has been used to calculate the impact of performance management system and employee satisfaction towards employee retention. R Square value of Employee Retention is 57.7% whereas, 100 points change on performance management system will reflect 25.8% change on employee retention and 100 points change on employee satisfaction will reflect 52.1% change on employee retention. (See Figure 1)

**Figure 4 Structural Equation Modelling**

6. Conclusion

The purpose of this study was to determine which parameter contributes towards Employee Retention and how much. It was found that Performance of an employee highly depends on the job satisfaction and more is their satisfaction, the more they happen to retain in an organization. The results show that R Square value of negative emotions is 57.7% whereas, 100 points change on performance management system will reflect 25.8% change on employee retention and 100 points change on employee satisfaction will reflect 52.1% change on employee retention. Suggestions here can be that workforce must be optimum as more burden of work will instead make employees unproductive. Secondly, Retention rate must be maximized because more employees leaving the organization creates negative influence in the mind of people. Thirdly, Pay structure must be at par with the competitors because it will help directly in retaining skilled employees and creating high level of output. Also to improve performance of employees, PMS (Performance Management System) must be conducted more than once in a year as it will help in focusing on improvement plan on a constant basis and then corrections could be made retrospectively.

**REFERENCE**

1. Aguenza, B. B., & Som, A. P. M. (2012), “Motivational Factors of Employee Retention and Engagement in Organizations”, International Journal of Advances in Management and Economics, Vol. 1, Issue 6 (pp 88-95).
2. Armstrong, M. (2006). Human Resource Management in Practice. London: Kogan Page.
3. Berman, P. L. (2005). Appraisal Systems for Effective Organizations. Prentice Hall: India.
4. Cole, G. A. (2002). Personnel Management for Organizations. Kogan Page: London
5. Farr, J. L., & Levy, P. E. (2007). Performance appraisal. In L. L. Koppes (Ed.), Historical perspectives in industrial and organizational psychology (pp 311-327).
6. RBI (2014). Guidelines for Licensing of Small Finance Banks in the Private Sector.
7. Hussain, T. and Rehman, S. S (2013), “Do Human Resource Management Practices Inspire Employees’ Retention?”, Research Journal of Applied Sciences, Engineering and Technology 6 (19), 3625-3633, 2013
8. Manville, G., & Greathunus, R. (2013). Third sector performance. Farnham, Surrey, England: Gower.
9. Samuel, M. O., & Chipunza, C. (2009). Employee retention and turnover: Using motivational variables as a panacea. African journal of business management, 3(9), 410-415.
10. Singh, V.K., Kochar, B. and YÜKSEL, S. (2010). An Empirical Study on the Efficiency of Performance Appraisal System in Oil and Natural Gas Commission (ONGC), İşletme Araştırmaları Dergisi 2/2 65-78

11. Vroom, V.H.; Kenneth R. M. (1968). Toward a Stochastic Model of Managerial Careers, Administrative Science Quarterly 13 (1): 26–46