

## Chapter 54

# Performance Measurement System in Banking Services in India

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### ABSTRACT

*Increased competition and technological breakthroughs in banking services has sidelined the customer focus and opened new vistas of managing figures of success not only to show past performance rather as a strategy to sustain in business. This has led to many practices in banking as non standardized services. The non- core businesses subsidizing the core businesses on failure fronts also cause this deviation. Performance of any organization is one of the mechanisms to gain people's commitment towards achieving the stated objectives of the organization. This study is an attempt to address the questions, which includes: (a) the different performance measurement systems adopted by Indian companies in banking services; (b) the approaches used to measure the performance of the organization in banking services in India; (c) the different factors distorting the PMS of the organization and (d) the effectiveness of PMS and need for the change in the existing PMS. This study also aims to establish an equation between performance measurement practices and environmental variables in Indian banking services. The primary data as well as secondary data has been used to decipher the trends in performance measurement practices in banking services in India. The empirical study deciphers the trend used to identify the potential of banking services in context of economic and social changes underway in India. Although, banking industry is lagging behind in the level of understanding of performance measurement system, but the sector realizes the importance of effective PMS for the organization. The different banking companies are found to use different approaches to measure the performance. The performance measurement systems adopted by Indian companies are also found to be different than that followed by multinational banks. The role of social, economic and cultural factors is being realized by most of the service providers in India. Therefore, the development of performance measurement practices in this dynamic world is need of banking service business.*

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## **INTRODUCTION**

Performance of any organization is one of the mechanisms to gain people's commitment towards achieving the stated objectives of the organization. Increased competition, rapid change, reduced resources and mounting employee expectations, have all combined in such a way that organizations are being expected to achieve more out of less. The changing Indian economic and demographic structure has led to changes in life style at a faster pace than economic growth. The demographic imbalance complicates the task of creating and providing different services as per demanded by the different customers. Thus, measurement of these services becomes complex especially in banking services. Experimental approach to the service delivery processes in Indian banks also hinders in effective implementation of performance measurement system. Traditionally, banks place heavy emphasis on the use of financial measures although they are historical by nature. The role of non-financial indicators, such as customer satisfaction, quality assurance, productivity, employee development etc. becomes important as they determine the competitiveness of a business as well as its ability to sustain profitability in the future. Incorporation of non-financial indicators in performance measurement process is crucial particularly in the face of intense competition, shorter product (service) life cycle and rapid advances in technology, which characterize the contemporary business. Also, the changes in performance measurement practices should incorporate the changes in business environment and environmental variables in Indian Banking industry.

## **OBJECTIVES OF THE STUDY**

This study is an effort to address the questions, which includes: (a) the different performance measurement systems adopted by Indian banks; (b) the approaches used to measure the performance of the organization in banking services; (c) the different factors distorting the PMS of the organization and (d) the effectiveness of PMS and need for the change in the existing PMS.

## **LITERATURE REVIEW**

Performance management is a term widely used within HR and has a specific meaning associated with reviewing and managing individuals' performance. However, there is also a growing concern in performance measurement. Measurement has to lead to insight and insight to action – hence the term corporate performance management is used to differentiate between management of performance at the level of the individual and the corporation. Over the last one decade, there has been a big change in the corporate performance management practices.

Mid of 20<sup>th</sup> century witnessed the causes for evolution of measurement and its importance. The industrial revolution also led to the same in order to cater the need of investors in big projects. Johnson (1983) also advocated this concept of performance measurement evolution.

Measurement system not only in term of designing of system but, also, disposal of existing system is very important. Indian companies are innovative enough to design the new system as per the demand, but disposal of existing or traditional system is very poor. Meyer and Gupta (1994) also express the same view.

The literature in the field of performance measurement emphasizes the importance of maintaining relevant measures that continue to reflect the issues of importance to the business (Gates, 1999). There

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