

## **Performance Evaluation of Private Banking Sector and Its Strategic Management System: A Study on Islami Bank Bangladesh Limited (IBBL)**

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**Abstract:** *The study on the private banking sector clearly portrays general banking activities on the basis of performance evaluation system and specific strategic management to bring forth gorgeous financial output and organizational success. It follows the alternative concept of banking using religious term which represents unique approach to credit and banking based on profit-oriented economy avoiding the name of interest in order to maximize profit. The study based on secondary analysis has formulated the idea of profit maximization with strategic governing procedure and manipulative technique to supersede the optimistic benefit in the competitive banking market.*

**Keywords:** *Performance Evaluation; Management System; IBBL; Private Sector*

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### **I. Introduction**

The present private-sector banks equipped with all kinds of contemporary innovations, monetary tools and techniques to handle the complexities are a result of the evolutionary process over two centuries. They have a highly developed organisational structure and are professionally managed. Thus they have grown faster and stronger since past few years.

Performance evaluation of the banks has become pertinent in the light of the growing complexities, economic downturn and political uncertainties. The performance appraisal is a unique and very important aspect of career development which entails a regular review of the performance of employees in the organization (Caruth & Humphreys, 2008) but doesn't stop there but goes further to communicate feedback to the employees (Sole, 2009). Motivation of employees would make them to be more innovative because they are encouraged to perform better (Caruth & Humphreys, 2008). In many countries, HRM displaced the traditional model of personnel administration within the public organization, shifting the culture from "rule-bound" to "performance-based" (Shim, 2001). Thus, newly adopted HRM practices allow a more flexible approach to staffing and recruitment, training and development, and pay and performance appraisals.

This link has its roots in behavioral studies and organizational psychology and is based on the notion that these management practices foster employee attitudes measures such as employee commitment, job satisfaction and motivation, at the individual level, which ultimately results in enhanced individual and organizational performance (Katou & Budhwar, 2010). However, the link between HRM practices and organizational performance has been much researched as a result of the causal relationship between HRM practices and organizational performance.

An Effective performance appraisal should also recognize the legitimate desire of employees for progress in their professions, as the appraisal leads to decisions on promotion, transfer, layoffs and discharge. On the other hand, the appraisal system itself needs to be neutral and objective in its monitoring so that bias and prejudice of appraiser does not color the evaluation process. But the problem arose when more people were employed on political basis and more number of branches was opened around the country, which resulted in loss of devotion in trained personnel and shift of loyalties to the private sector banks and establishment of their own business out of the country (Amir Hussain, et al., 2010). On the top of that politicians had drawn huge loans which were declared irrecoverable ultimately. This behavior led to institutional fall down, budget deficit, foreign debt burden, extended pressures, increased trade deficit, disequilibrium in balance of payment and alarming current account position.

The significant role of performance appraisal in any establishment of organizations has become indispensable when we talk of organizational success. The success of any organization is dependent on how well the performance of every employee is effectively appraised and managed. In this connection, Abu Doleh & Weir, (2007) posited that Performance appraisal is an activity which includes the assessment of individual or other level of performance to measure and improve performance that will help in attaining corporate objectives. By following the objectives, an organization that motivates its employees makes them more innovative and creates brilliant ideas that would give the organization a competitive edge in its operating environment. Therefore, Performance measurement, in one or another form, is spread across various management disciplines: Strategic management, Quality management, Process improvement, and Performance appraisal as a part of Human resources management. Organization-level indicators prevail in Strategic management systems, both organizational level and individual level performance indicators can be found in Quality management and Process improvement systems, and individual level performance indicators are dominant in Human resource management(Sudnickas,2016).

## **II. Objectives Of The Study**

The main objective of the study is to know about the performance evaluation of private sector and its strategic management system. The main purpose of the study is to focus on the system and procedures of banking sector aiming to rationalize organizational performance in order to maximize more utility and proper management.

### **Major Objectives**

- i.** To illuminate an overview of the structure of evaluation system with effective organizational guidelines in private banking sector.
- ii.** To examine how does evaluation process and performance mechanism of an organization operate in the right places to secure organizational benefit
- iii.** To evaluate the system of strategic management and its performance activities with a view to maximize higher potentiality
- iv.** To find out the major procedure and techniques in order to ensure and develop the skills and relevant qualities in banking management system.

## **III. Methodology And Limitations**

The study is based on secondary sources of information that have been collected from annual report, published documents, published books and Journal articles, different circulars, published papers and reports sent by Head Office of Islami Bank Bangladesh Limited (IBBL) and also from the Website of IBBL. Other sources include Annual report of IBBL, Other manual information and Desk report of the related department.

It is very much difficult to collect data from other Bank's HR division because of strategic purpose, so most of the time I have to rely on web site and secondary data. Some data have not been collected for confidentiality or secrecy of the management. I have to complete the study within short time with limited endeavor because of short budget and structural difficulties.

## **IV. Literature Review:**

Prasad et al. (2011) have used CAMEL model to examine the performance of Indian public sector banks for the period 2006 – 2010 and to rate the banks according to their performance. After analysis they for every organization (small or big) there are some objectives, goals or missions to accomplish. These goals can be achieved by better planning, implementing strategies and smart management of human resource. One of the important concerns however, is the measurement that whether people are doing their work at right time in right manner. This process leads to performance appraisal in organizations. Brown and Hey wood (2005), noted that performance appraisal as continuous process of identifying, measuring and developing the performance of individuals that clarify continuous capacity building which require clear objectives, observing and measuring performance and regular feedback (Buchner et al., 2007) focusing its employees to develop their capabilities. It does not only do capacity building but performance evaluation helps managers to sense earlier and respond more quickly to uncertain changes. Performance appraisal is neither a technique nor a single process, it can be considered as a set of process, or a concept, a holistic philosophy that includes motivation of employees to perform well, employees knowledge about what their managers expect of them, development of employees, monitoring and measuring performance in order to know what areas are to be improved (Cardy et al., 2004). HD Aslam (2011) highlighted several roles of the performance appraisal system as-first of all, it is the mechanism that helps the organization highlights and communicate the small number of critically important behaviors and skills against which every single employee will be assessed. In addition, creating a new performance appraisal system may help force the organization to define just what attributes or factors are

actually at the organization's core. Finally, the appraisal system can guarantee that these competencies are fully understood and institutionalized

Bhattacharjee and Karmaker (1989) operated survey research in the concerned areas indicating that the term performance evaluation, merit rating and performance appraisal are mostly used in measuring the performance of an employee or employees. Beach (1965) studied on the performance appraisal as the systematic evaluation of the individual with respect to his/ her performance on the job and his/her potential for development. It explores the performance appraisal as a systematic review of employee's meaningful job behavior to respects their effectiveness in meeting their job requirements and responsibilities.

Macey et al., (2009) studied the determinants of performance appraisal and showed that one of the key determining factor of performance management and appraisal is employee engagement. Mone and London (2010) also contributed that the importance of employee engagement cannot be underestimated when the desire of the organization is to improve performance and productivity (Gupta & Upadhyay, 2012). The effectiveness of HR systems is, in part, a task of the degree to which they are matching with both organizational and individual goals (Roberson & Stewart, 2006). According to Pettijohn, Parker, Pettijohn & Kent (2001), there are a great number of design features that potentially can influence the effectiveness of a performance management system, and many of these have been empirically studied to clarify their impact.

Rodwell & Teo(2004) stated that "Strategic HRM in for-profit and non-profit organizations in a knowledge-intensive industry" examined the effects of adopting specific clusters of HRM practices on organizational performance, comparing both for-profit and non-profit knowledge-intensive health service organizations in Australia. The authors surveyed the Managing Directors of 61 organizations with workforces exceeding fifty employees. They used selective staffing, comprehensive training, performance appraisal, and equitable reward systems as measures of HRM practices. For performance measures, the authors used external orientation to customer demands and a commitment to employees as the two main performance measures (Rodwell & Teo, 2004). Their research findings proved a positive and significant relationship between HRM practices and organizational performance for both for-profit and non-profit organizations. They concluded that adopting HRM practices developed more commitment and more external orientation to clients' demands, advancing performance within the organization with no distinctions between for-profit and non-profit organizations (Rodwell & Teo, 2004).

In another study in the, Katou and Budhwar (2010) investigated the effects of HRM on organizational performance based on a sample of 178 Greek organizations operating in the 23 manufacturing industries. The authors identified five bundles of HRM practices as the independent variables, including recruitment, training and development, compensation and incentives, employee participation, and job design. The study aimed at understanding the effects of HRM on employee skills, attitudes, and behaviours as the mediating variables between HRM and firm performance. The study adds a new dimension to the analysis, emphasizing the mediating variables between HRM and performance. HRM practices do not have direct impact on organizational performance, but their impact is mediated by employee skills, attitudes, and behaviours (Katou & Budhwar, 2010). In addition, Robert Kaplan and David Norton proposed a balanced scorecard system (Kaplan, Norton, 1996), transforming simple performance measurement systems into powerful strategic management tool. Their concept is based on the assumption that the manager must have a balanced set of measurable indicators, covering financial, customer, internal processes, and innovation and development areas.

## **V. Findings And Discussions:**

### **5.1 Mission, Vision and Principles of IBBL**

The main vision of IBBL is to establish and maintain the modern banking techniques, to ensure the soundness and development of the financial system based on Islamic principles and to become the strong and efficient organization with highly motivated professionals, working for the benefit of people, based upon accountability, transparency and integrity in order to ensure stability of financial system. Major missions include to establish Islamic Banking through the introduction of welfare oriented banking system and also ensure equity and justice in the field of all economic activities and to achieve balanced growth and equitable development through diversified investment operations particularly in the priority sectors and less development areas of the country. Salient principles in relation with performance of IBBL are

1. To diversity its investment portfolio by size of investment, by sectors (public and private) by economic purpose, by securities and by geographical area including industrial, commercial & agricultural.
2. To ensure mutual benefit both for the Bank and the investment client.
3. To make investment keeping the socio- economic requirement of the country in view.

## **5.2 Modes of Investment for Performance Acceleration**

Three types of Investment Mode such as *Bai* Mode (Trading), *Ijarah* Mode (Leasing) and Share Mode are effective for the performance of banking strategic management. *Bai* Mode shows that it is permissible to make the promise binding upon the Client to purchase from the Bank and to take cash/collateral security to guarantee the implementation of the promise or to indemnify the damages. *Bai-Murabaha* and *Bai – Muazzal* are the system of purchase and sale within a fixed time that aims at investing for commercial, agricultural, industrial and importing purposes. In this process Mortgagee/Guarantee/Cash Security may be obtained before /at the time of signing the agreement. *Ijarah* Mode (Leasing) makes share of ownership in order to share the benefit from the organizational agreement which follows three stages: Purchase under joint ownership, Hire and Sale and /or transfer of ownership to the other partner Hirer. On the basis of the agreement the Hire (Bank) does not sell or the Hirer (Client) does not purchase the asset but the Hire (Bank) promise to sell asset to the Hirer (Client) part by part only. Share mode organized by the bank is a form of partnership where one party provides the funds while the other provides the expertise and management, which permits any profits accrued are shared between the two parties on a pre-agreed basis, while capital loss is exclusively borne by the partner providing the capital.

## **5.3 Performance Analysis of IBBL**

**a. Strengths:** The major strengths of IBBL are Unique System (100% supervise credit), Efficient management system, Interest free of welfare investment scheme, welfare foundation and promotional activities. Although IBBL does not offer Contemporary Investment Schemes in another sector like as Education, Marriage, Travel and CNG conversion etc.

**b. Accounting Policies:** In order to get better performance, the Bank changes its accounting policy only if the change is required by a BFRS or Bangladesh Bank Guidelines or results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the Bank's financial position, financial performance or cash flows. However, during the year ended 31 December 2016, the management has decided to change its accounting policy with regard to make provision against its investments to the extent it includes compensation realizable amount. (Annual Report, 2016)

**c. Sharing and Securities of Investment:** Investment in shares and securities has got more priority in relation with securing performance of IBBL. Investments in quoted and unquoted shares are revalued at the year-end at market price and at net assets value (NAV) of last audited balance sheet respectively. Investment in mutual fund is revalued at lower of cost and higher of (market value and 85% to 95% of NAV). As such, provision is made for any loss arising from diminution in value of investments. In addition, Investment in govt. securities (other than investment in Bangladesh Shipping Corporation) are measured both initially and subsequently at cost as the Bank is not allowed to invest in interest bearing government securities and Investment in subordinate bond is measured both initially and subsequently at cost.(Annual Report, 2016)

**d. Various Provisions:** Provision for investments, Provision for diminution of value of shares and securities, Provision for off -balance sheet exposures, Provision for other assets and Provision for unsettled transactions in nostro accounts were settled under the Foreign Exchange Policy Department (FEPD) of Bangladesh Bank.

## **5.4 Models of Property Measurement In IBBL**

### **Cost model**

After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

### **Revaluation model**

The revaluation model requires an asset, after initial recognition, to be measured at a revalued amount, which is its fair value less subsequent accumulated depreciation and impairment accumulated losses. Where an asset's carrying amount is increased as a result of a revaluation, the increase is recognized in equity under the heading of revaluation surplus. However, the increase is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss. Where an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized in profit or loss. The revaluation surplus included in equity in respect of an item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognized. However, some of the surplus is transferred as the asset is used by the Bank.

### 5.5 Performance Appraisal System

IBBL follows a well-structured performance appraisal system (commonly known as ACR) for evaluating the performance of the employees. Introduction of a daily basis job-based ‘Automated Performance Evaluation’ (APE) process is under trial operation, Promotion, Reward & Motivation. IBBL follows structured human resources policy in awarding promotion, reward and recognition to its employees. In 2015, IBBL awarded promotion to the eligible employees keeping in view the quality of their respective job delivery and performance. The most important is training for development and so IBBL always strives for excellence in improving the ethical and professional standard of its employees. IBBL provides training to its employees throughout the year in its own training institute as well as in various training providing institutes at home and abroad. Another is career development and for this

Career and Development potential and talented people are cultivated with the aim of establishing lifelong careers; they are trained and fostered, with the goal to develop future leaders. In order to inspire trust and create added customer value, great emphasis is placed on maintaining employees’ knowledge and skills through training, development and informative feedback.(Annual Report, 2015)

**Table:1** Employee Productivity (In Million Taka)

Sl. No	Particulars	2015	2014
1	Total deposit per employee	70.93	64.69
2	Total investment per employee	72.57	63.69
3	Total income per employee	6.52	6.91
4	Total expenses per employee	4.86	4.99
5	Profit before provision per employee	1.65	1.92
6	Profit before taxes per employee	1.02	1.16
7	Salary and allowances per employee	1.02	0.76

(Annual Report, IBBL, 2015)

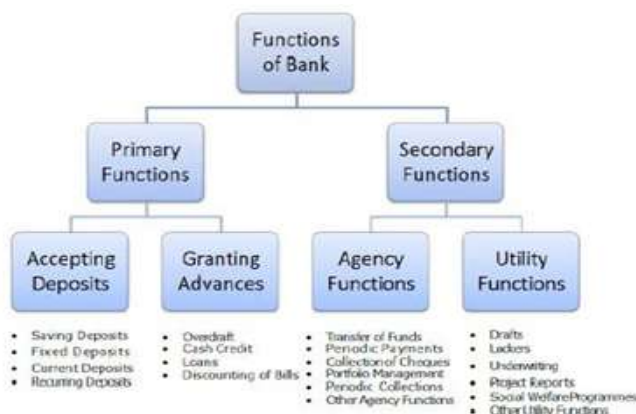
**Table: 2 Financial Information: [As on: 31 December 2014]**

	BDT (Million)	USD (Million)*
<b>Authorized Capital</b>	20,000.00	255.10
<b>Paid-up Capital</b>	16,099.90	205.36
<b>Equity</b>	48,569.86	619.51
<b>Reserve Fund</b>	28,097.92	358.92
<b>Deposits</b>	560,696.30	7151.74
<b>Investment (including Investment in Shares)</b>	564,332.00	7198.11
<b>Foreign Exchange Business</b>	<b>BDT (Million)</b>	<b>USD (Million)</b>
<b>Import</b>	316,970.00	4042.98
<b>Export</b>	222,753.00	2841.24
<b>Remittance</b>	308,722.00	3937.78

\* Authors calculations based on (1 USD = 78.4 BDT )

### 5.6 Management and Responsibility

IBBL has approved Organizational Structure (Organogram) with clear functional separation and segregation of processing/functioning (Front and Back office) authorities that ensures core risk management practice and compliance across the Bank. The rules, regulations, guidelines, directions and policies are governed by the management committee that is applicable for the Banking business. The Committee exerts financial, administrative and business discretionary powers delegated by the Board and is responsible for implementation of the policies and guidelines approved by the Board. The Management Committee evaluates the performance and scrutinizes the issues thoroughly before placing those to the Executive Committee, Audit Committee, Risk Management Committee and the Board. Board of Directors, Asset-Liability Committee (ALCO), Supervisory Review Process (SRP) Team, Shari’ah Supervisory Committee, Shari’ah Inspection body and regulatory committee are responsible for the management of the sector to maximize greater output.



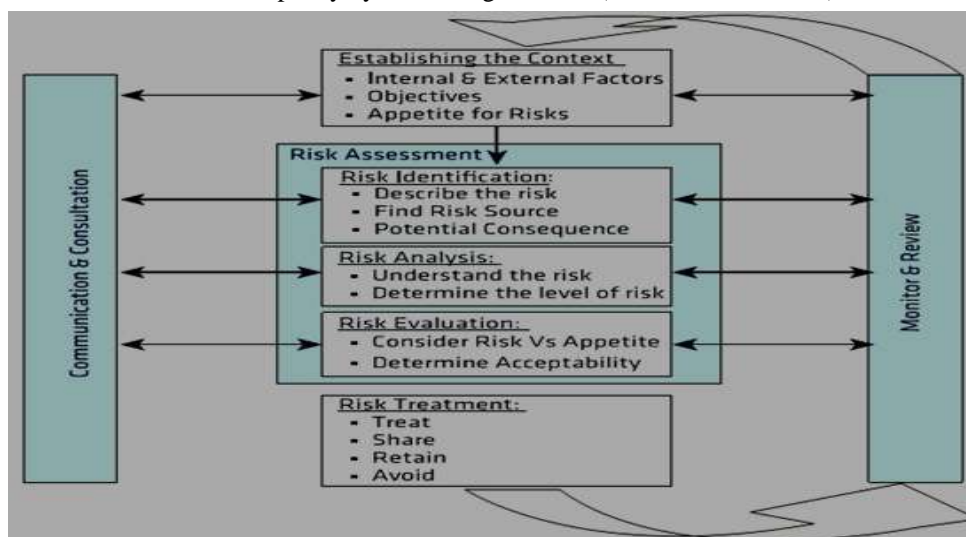
**Fig: 1** Management with the functions of IBBL

**5.7 Investment Management**

Investment management of IBBL is a dynamic field where a certain standard of long range planning is needed to allocate the fund in diverse field and to minimize the risk and maximizing the return on the invested fund. Continuous supervision, monitoring and follow-up are highly required for ensuring the timely repayment and minimizing the default. Actually the investment portfolio is not only constituted the bank’s asset structure but also a vital factor of the banks success. The overall success in investment management depends on the banks loans and advances. IBBL) has been the number one profitable in Bangladesh for the last five years by adopting Household durable scheme, Small business investment scheme, Housing investment scheme, Real estate investment scheme , Transport investment scheme and Rural development scheme.

**5.8 Strategic Decision Making Process**

IBBL follows some steps for making their strategic decision. The steps are as follows: a. Identify / Define the Problem b. Seeking information c. Brainstorm solution d. Implement the plan e. Evaluate outcomes. Strategic planning is long-term planning that focuses on organization as a whole, what must be done in the long term (three to five years) to attain organizational goals. The critical success factors of IBBL identified are: (i) religious spirit in the present banking system and its importance in developing the system (ii) Competitiveness of the present banking system and its importance in developing a future system (iii) The state of present ‘supervisory and regulatory’ systems in supporting banking in Bangladesh and its importance in developing an banking system in the future (Rukhsana and Suleman, 2006). The Risk Management process of IBBL as shown in the following diagram, is segregated into five steps: establishing the context, risk identification, risk analysis, risk evaluation and risk treatment. From the each steps of the risk management process, there is sufficient option for communication, consultation, reporting, monitoring, and review system. Risk governance is a three layer arrangement of an entity to carry out the risk management process effectively and efficiently throughout the organization. These three line of defence are shown in the following figure. Risk governance focuses on applying the principles of sound corporate governance to the assessment and management of risks to ensure the capacity by risk taking activities(Akther Uddin, 2015).



**Figure 2:** IBBL Risk Management Process (Source: Annual Report 2014)



## VI. Conclusions

The phenomenal growth of IBBL has attracted the attention of bankers, business community and Bank customers. As the competition in the commercial banking sector is increasing rapidly, so for the existence or to improve present position, the bank should provide better and quality service to the customers. IBBL, since its inception, has been working for the uplift and emancipation of the underprivileged, downtrodden and neglected sections of the populace and has taken up various schemes for their well-being. The objectives of these schemes are to raise the standard of living of low-income group, development of human resources and creation of avenue for self-employment that are going to better perfect position. IBBL has become welfare oriented banking institution has by now designed and implemented thirteen investment schemes keeping in view the needs of different sectors and various sections of people for their socio-economic uplift and to improve their quality of life. With the use of rational evaluation and technical management functions IBBL secured highest amount of profit, huge organizational output and prestigious position in Job markets that attracted not only clients but also employees and higher educated job seekers. It clearly achieved apex position among the other banking organizations by following rational bureaucracy, hard working, administered system of selection and proper strategic management system.

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