CHAPTER I

INTRODUCTION AND DESIGN OF THE STUDY

1.1 Introduction

Nowadays Public sector enterprises are very active in order to survive in the competitive environment. To survive within this competitive environment, it is very important to generate sustainable competitive advantages.

Contrary to the industry-based strategic management perspective, which focuses on the external environment of a company, the resource-based strategic management perspective focuses on the internal environment of the company. In the resource-based perspective, traditional sources of competitive advantages like natural resources and technology are no longer sufficient; companies can develop sustained competitive advantage only by building unique competencies (firm-wide capabilities). By adapting this strategy, human resource development may be made as an important source of sustained competitive advantage. The human resource value creation process is a complex, valuable, rare and non-substitutable source of competitive advantage. Many studies have examined the relationship between human resource management and organisational performance. The common perception of these studies is that human resource practices affect organisational performance. Organisational climate is the shared perception of an organisation in terms of practices, policies, procedures, routines and rewards, based on shared perceptions of organisational members. Practices
and policies, procedures, and rewards are integrated aspects of the human resource management practices of an organisation. Organisation climate is a representation of the perception of human resource practices, making organisational climate a more predictive value for organisational performance. Several authors have found links between organisational climate and employee performance. However, most of these studies only consider the single aspects of organisational climate and outcomes related to these aspects; for example, the relation between innovative climate and creativity.

1.2 Organisational Climate

Organisational climate is a shared perception of the organisation in terms of practices, policies, procedures, routines, and rewards—what is important and what behaviors are expected and rewarded—and is based on the shared perceptions among employees within the formal organisational units. Schneider and Reichers (1983)\(^1\) define organisational climate as a shared or summary perception that people attach to particular features of the work setting. According to Watkin and Hubbard (2003)\(^2\) organisational climate is "how it feels to work in a particular environment and for a particular boss, more precisely it is a measure of employees’ perception of those aspects of their environment that directly impact how well they can do their jobs”.

Organisational climate is conceptualized across different levels of analysis: individual, work, and organisation. In this thesis, organisational climate is treated as a construct that belongs to a group of people (organisation), rather than considering it as something that is assigned to an
individual person. This approach makes it possible to compare organisational climate with organisational outcomes (instead of an individual's outcome). As each organisation has its own specific organisational climate and organisational outcomes, different organisations can be compared to each other.

Organisational climate and organisational culture are closely related, but are certainly not the same. Both deal with how individuals try to make sense of their environments, and are learned through interaction between persons belonging to a certain group. However, fundamental differences between these two phenomena exist.

After an extensive research on both climate and culture literature, Denison (1996) identified several differences between organisational climate and culture. According to him, organisational culture refers to the underlying structure of an organisation, embedded in the values, beliefs, and assumptions of organisational members. Organisational climate, on the other hand, is reflected in practices and procedures that are observable at the surface of the organisation. Organisational climate is emphasized to be temporary, subject to direct control, and limited to aspects that are consciously perceived by members of an organisation. From a managerial point of view, therefore, organisational climate is a very interesting phenomenon. It can be influenced, relatively, easily, and changes in organisational climate can be observed on a short time span.
1.2.1 Organisational climate: an outcome of human resource management

Organisational success depends upon the quality and effort, of the people, that work for the organisation. Flexible, productive and knowledgeable people within an organisation are the source of (sustainable) competitive advantage for companies. Top managers increasingly acknowledge that the people within the organisation make the difference by creating a value for the organisation.

Human resource management is concerned with the management of people within organisations. Regardless of the type of organisation, all firms need to manage their workforce using appropriate policies and practices. Policies and practices are need to be coordinated with each other, as well as with the needs of the organisation. The latter is also known as strategic human resource management, and is based upon the recognition that organisations can be more effective if they manage their human resources in such a way that they deliver the right number of people with the appropriate behaviours, the necessary competencies, and the right level of motivation to the organisation.

Human resource management involves the use of several policies and practices. Human resource practices can be summarized into three specific groups: entry, performance, and exit practices. Entry practices include practices that are aimed to recruit new employees, performance practices
include practices that are aimed to manage and develop employee performance, and exit practices include practices that manage the exit of employees.

Top and line management play a central role in human resource management. Top management uses human resource management as an integrated part of their business strategy. Line management, on the other hand, is responsible for managing the employee relations. Human resource professionals advise the line management to develop and distribute human resource policies and practices. However, line managers are the actual practitioners of human resource management, since they recruit new employees, do the performance appraisal, and are responsible for the development of the core employees.

Ideally, the HR strategy which the top management has in mind is transferred exactly as intended to the lower level employees. However, this is often not the case. Wright and Nishii (2010) developed a model to represent the HR practices implementation process by making a distinction between intended HR practices, actual HR practices and perceived HR practices. The intended HR practices are the outcomes of the HR strategy developed by top management and intend to achieve employee reactions that are necessary for organisational success. Middle management implements the intended HR practices. Often, the intended practices were implemented in a different way as intended by top management or they are not implemented at all. The practices that are implemented by middle management are the actual HR
practices. Actual HR practices are interpreted and perceived by employees, resulting in perceived HR practices. Thus, top management is responsible for establishing the HR strategy of the organisation, while middle management interprets and distributes the HR strategy among the organisational members using several HR practices.

As management is responsible for implementing the human resource practices it plays a crucial role on employee’s perception about organisational climate, Thus, management can create a desired organisational climate using specific human resource practices, but employee’s perception about these practices is crucial for realizing the organisational climate as intended. Therefore, consider organisational climate as a predictor for organisational performance, rather than the human resource practices.

1.2.2 Organisational climate and employee performance

Several researchers have studied (and proved) the relation between organisational climate and employee performance. Studies on the relation between global organisational climate (a broad range of organisational climate aspects) and global performance outcomes are limited. Organisational climate has a global construct, covering a broad range of climate aspects: innovation, responsibility, standards, rewards, and clarity. This provides a good representation of the organisational climate within a company, and gives detailed information on how specific organisational climate aspects are related to company performance. This representation of organisational climate will make it possible to implement actions that
improve specific organisational climate aspects and global organisational climate in the most effective way. Relatively few is known about the underlying mechanisms that explain the relation between organisational climate and these performance indicators.

The relation between organisational climate and employee performance can be explained using the Social Exchange Theory. This theory is based upon the assumption that social exchanges involve several actions that create obligations, and that relationships evolve over time into trust, loyal, and mutual commitments. These relationships can exist among two or several persons, but also among persons and organisations. Reciprocity or repayment is the most common exchange rule; the action of one party initiates a response on the other party that wants to ‘repay’ this action. Employers can reward employees in two different ways, i.e., using economic and socio-emotional resources. Economic resources are tangible and often are financial rewards; socio-emotional resources are intangible and address the social needs of the employees. Using these resources, employers can create strong relationships with their employees, as employees have the tendency to repay these rewards with ‘better’ work behavior and positive employee attitudes.

Organisational climate is a part of these socio-emotional and economic resources. Thus, when employers establish an organisational climate that is perceived as positive by their employees, this will result in better employee performance and higher levels of commitment, motivation and job-satisfaction.
1.3 Statement of the Problem

Liberalization of the Indian business environment through modification in the industrial, trade and fiscal policies by the government has brought in change and competition that was previously unknown to Indian Public sector enterprises. In the new liberalized scenario, where multinationals and other global players are competing in the domestic market, the management of an organisation is expected to be more productive and efficient for survival. More than a decade ago, the western countries faced similar conditions. A cascade of changing business structures, and changing leaderships had forced various departments of the companies to alter their perspectives on their role and function immediately. Further the studies on behavioural sciences are said to be important, because they suggest ways of getting our perceptions closer to reality. This perception has also a significant impact on individual behaviour. People in an organisation perform on the basis of their perceptions about their organisation. These perceptions may be related to their leaders, peers, job, etc. It is interesting to note that, like behaviour, perceptions also differ between individuals. In this context, it is proposed to undertake a study on organisational climate mainly to, (a) identify the variations in perception among different groups, (b) identify the link between perception of organisation climate and job performance, and (c) formulate viable suggestions to improve performance in terms of the dimensions of organisation climate. In order to “survive”, Indian public sector enterprises are
being forced to undergo massive changes. In this context, it would be important to identify the factors in the organisational environment that have the most positive impact on the employee performance of the organisation.

1.4 Scope of the Study

Recently there has been a worldwide wave of 'Privatisation'. In India it has become a burning issue in many seminars, debates and conferences, with the focal points such as 'Whether to privatise or not', 'Justification of privatisation', 'Public enterprise: Do or Die', and so on. Each country attempts privatization of Public Enterprises (PEs), mainly because of the poor performance of the PEs. Particularly in India, it is generally accepted that the performance of PEs is not satisfactory when compared with that of private enterprises. Instead of talking about various issues related to privatisation, it is worthwhile to find out how we can improve the performance of PEs. If their performance can be improved, then there is no need for 'Privatisation'.

The changing concepts about the management of industrial organisations require a new look at the concept of performance as well. In the past, performance was defined in terms of a rise in the level of output or services with the same or reduced level of input. However, the ultimate increase in production is achieved through the employees. Their performance is more important than the equipments and raw materials. If they are not motivated to work harder and better, with sincerity, initiative and cooperation, no sophisticated technology or improved work method is going to help.
Therefore, performance needs to be redefined in terms of employee motivation and satisfaction. Every employee's satisfactory performance is vital to the proper functioning of machinery and equipment in the industry, and productivity is more likely to be determined by what the employees do rather than what the machines can do.

Today, managing the employees is an increasingly difficult task. The involvement, sincerity, creativity and dedication to the job that the management expects do not seem to be the outcome of financial incentives, as was believed earlier. It is observed that in spite of adequate incentives, motivation to better performance is still lacking. Performance can be improved in two ways. Good employees can be attracted, who could perform the task in a dependable manner and also use their creativity in their job. On the other hand, the organisation provides a good organisational climate that enhances their growth and fulfils their expectations.

It has been empirically proved in many Indian and Western organisations that conducive organisational work climate; employee-centred organisational climate and achievement-oriented organisational climate ultimately improve performance. In this context, it seems worthwhile to investigate the performance improvement through organisational climate measures in public sector organisations in India. The valid conclusions based on such an investigation would result in suggestions for bringing about a work
environment essential for scaling new heights in labour productivity in public sector industries. The findings may be equally applicable to the private sector also, since in India both public and private sectors are similar in many aspects.

It was decided to undertake the study of Organisational Climate and employee performance in five public sector organisations. They are Bharath Heavy Electricals Limited (Boiler Division), Trichy, Madras Fertilizers Limited, Chennai Petroleum Corporation Limited, State Express Transport Corporation and Tamilnadu News Print Limited, Tamilnadu.

1.5 Objectives of the Study

The study focuses on the following objectives:

1. To identify the extent of variation in Organisational climate in the selected Public Sector Enterprises in Tamilnadu.

2. To identify the differences in the perception of Organisational climate among the three levels of management.

3. To identify the significant relationship that exists between Organisational climate and performance and its relative variance among the three groups.

4. To identify the relative significance of the job-performers and the Organisational climate dimensions.
5. To identify the major determinants in terms of Organisational climatic dimensions of employee performance.

6. To compare the impact of organisational climate on job satisfaction in the selected public sector enterprises in Tamilnadu.

7. To find out the perceived organisational climate and organisational citizenship behaviour among the employees of the selected public sector enterprises.

1.6 Significance of Study

'Climate' in the organisational context is primarily composed of perceptually-based sets of descriptive characteristics that embody people's interpretations. These climate perceptions invariably form the basis for responses such as performance, satisfaction or commitment. A typical motivational model in psychology and climate research provides a convincing framework for conceptualizing motivation at a collective rather than just at the individual level. Higher operational efficiency is necessarily a function of that organisational culture which maximize output from an organisation in internally consistent ways.
1.7 Research Design

1.7.1 Sampling

The sample was chosen from selected five public sector enterprises in Tamil Nadu. The sample size 545 was obtained after a multiphase stratification. As a result of stratification, the initial total population of 10,900 was ultimately reduced to 545, a composite of 82 top level employees, 160 middle level employees and 303 low level employees, which constitutes 5% of the stratified population.

1.7.2 Questionnaire

A specially designed questionnaire was adopted to measure the employees' perceptions of the climate. The climate dimensions incorporated in this questionnaire were based on the determinants of climate identified by some of the earlier researchers. The questionnaire was revised based on a pilot study and a pre-testing process.

1.7.3 Pilot study

The selected 545 samples, which included top-level employees, medium-level and low-level employees, were contacted for this purpose. The questionnaire, in four parts, contained 70 statements grouped under the following ten dimensions: Worker's Attitude (WOA), Job Characteristics (JOC), Working Conditions (WOC), Personnel Policies (PPS), Managerial Structure and Policies (MSCP), Performance–Reward Relationship (PRP),
Participative Management (PMT), External Influences (EXI), Social Values (SOV) and New Technology Analysis (NTA).

Respondents were asked to respond to the statements in the first part using the Likert type 5-point scoring system, ranging from 'Strongly Agree (5)' to 'Strongly Disagree (1)'. In the second part, there were three questions in relation to each climate dimension, wherein a subject was required to indicate a) how much of that dimension is there, now?, b) how much there should be?, and c) how important is that dimension for him?. The difference between (a) and (b) would reflect the degree of expectation about a given characteristic. In the third part, each respondent was asked to give his overall perception of the organisation in terms of five different statements. A 5-point rating scale was used, in which the first statement represented the highest degree and the last statement the lowest.

The performance of employees was evaluated using another questionnaire. A 3-point scoring system was used for measuring each attribute, in which the common attributes that an employee at any level is supposed to possess were incorporated.

1.7.4 Reliability of the questionnaire

The analysis, findings and conclusions of this study are based on the information generated by the questionnaires. Hence, it is necessary to ensure whether the information thus generated is indeed reliable. An attempt was therefore made to test the reliability of the instrument in terms of its two major characteristics:
1. The analysis was based on aggregate data. Individual's aggregate scores were obtained by pooling the responses of each respondent to the corresponding ten dimensions. Hence, it is necessary to verify the inter-item consistency of responses among the corresponding ten dimensions for the sample as a whole.

2. Climate is assumed to be a multidimensional concept. Ten different dimensions are used to measure the climate scores and seven statements are used to measure each dimension. It is thus important to verify whether the seven statements used to measure each dimension belong to that dimension or not.

Annexure I gives the inter-item correlations among the ten dimensions of OC. All correlations presented in the table are positive and statistically significant, which suggests that there is a reasonable inter-item agreement among individuals' scores for the ten dimensions of OC, for the sample as a whole. Hence, aggregating the responses of each respondent across the dimensions is justified.

1.7.5 Statistical analysis

In this study, the data were analysed using statistical methods like Correlation, Mean, Median, Standard Deviation, One-way ANOVA, and Discriminate Analysis. The computation was done for the total sample besides an analysis carried out with a break-up of high-level employees, medium-level employees and low-level employees. The various statistical tools and techniques used in this study were as follows:
Simple correlation, Mean scores, One-way ANOVA, 'F' test. Kruskal–Wallis one-way ANOVA, Kolmogorov–Smirnov one-sample test, Factor analysis, Mann–Whitney 'U' test, and Discriminant analysis.

1.8 Period of the Study

The study relates to a period of two years, from 2010 to 2012.

1.9 Limitations of the Study

In the present study, the cooperation of a section of respondents for filling the questionnaire was limited. Only five public sector enterprises functioning in the state of Tamilnadu were considered for the research and so generalization is not possible.

1.10 Operational Definitions

Worker's Attitude (WOA)

The attitude towards peers, the management and others; a sense of belongingness to the organisation.

Job Characteristics (JOC)

Provisions of realistic job design, job previews, job pressures, sense of freedom felt in the job etc.
Working Conditions (WOC)

Provisions of safe and healthy working conditions; adequate job security; realistic and reasonable working standards, and adequate welfare facilities and amenities to employees and their families at their work place and outside.

Personnel Policies (PPS)

Selection criteria based on ability; degree to which promotions are based on performance; adequate facilities for general education and technical training; existence of a sound grievance-handling procedure; attractive retirement benefits.

Performance–Reward Relationship (PRP)

Individualized reward system; degree to which rewards are fair and appropriate.

Participative Management (PMT)

Involvement of employees in solving day-to-day problems; competency and effective performance of various committees; recognition given to workers' representatives in meetings; negotiation in decision-making.
External Influences (EXI)

Pressures presumed in other local organisations; political interferences through trade unions; atmospheric climate and other infra-structural facilities.

Social Values (SOV)

Consideration given to the social needs of the members; status of the job in society; feeling of prestige; chances of moving with the public.

New Technology Analysis (NTA)

Installation of new technology for manufacturing products, delivering services, and processing information; encouragement of creativity and innovation at all levels.

Perception

Perception is the organisation, identification, and interpretation of sensory information in order to represent and understand the environment of employees working in Public sector enterprises

Organisational climate

Organisational climate (sometimes known as Corporate Climate) is the process of quantifying the “culture” of an organisation, it precedes the notion of organisational culture. It is a set of properties of the work environment, perceived directly or indirectly by the employees, that is assumed to be a major force in influencing employee behavior.
Employee performance

The job related activities expected from an employee and how well those activities were executed.

Job satisfaction

Contentment (or lack of it) arising out of interplay of employee’s positive and negative feelings toward his or her work in a public sector enterprises.

Employee citizenship behavior

Organisational citizenship behavior (OCB), as a behavior that (a) goes beyond the basic requirements of the job, (b) is to a large extent discretionary, and (c) is of benefit to public sector enterprises

1.11 Chapter Scheme

The first chapter deals with introduction and design of the study.

The second chapter deals with review of related studies.

The third chapter covers the profile of the Organisations under study.

The fourth chapter deals with analysis relating to organisational climate, employee performance, job satisfaction and organisational citizenship behavior.

The fifth chapter includes the conclusions and suggestions.
References


