CHAPTER 1

INTRODUCTION TO THE STUDY FRAMEWORK

1.1 GENERAL BACKGROUND

With globalisation of world economy, the business landscape has changed forever. From a stable, predictable and seller’s paradigm, the business has changed to uncertainty, discontinuity and buyer’s market. Moreover the markets are not even local they are simply global. This has led to increased pressure on bottom line of the organisation as physical or natural resources can no more assure them business success. Technology, products and financial capital are increasingly prone to duplication by competitors. Therefore, organizations need those resources which are not prone to duplication by competitors. The search for such resource has finally centered on the employees of the organisation which is in sharp contrast to economic theories and assumptions. Employees are now viewed as human resources because their talents, skills, motivations and commitment can lead to improved performance at both individual and group/team level which is capable of increasing an organisation’s competence and performance. Improved organisational performance is critical for competing effectively in the marketplace characterized by Olympian competition. Successful organisations have discovered and are busy harnessing this unique resource, viz. people, for leveraging their competitive edge the world over.

Capabilities of human resource can only leveraged by employing appropriate management tools and techniques. This is because people have limitless capacity to think, innovate and act in differentiating ways. This implies that for obtaining best results from employees, optimisation of inputs and outputs has to be undertaken for getting best results through human resources. This calls for astute management of human resources so that they are able and willing to put their best efforts and contributes to the success of their organisations. However managing people by no means is an easy task. It is often fraught with challenges and calls for devising appropriate tools and techniques for creating high individual and group performance. Human resource management tools and techniques can make this possible.

Once human resources are proactively managed as a scare resource and competency of an organisation, optimum organisational outcomes are expected. But as once
management doyen Peter F. Drucker said, “What Gets Measured, Gets Done”. Therefore, organisations need to devise, implement, monitor and develop contributions of human resources through a systematic and coherent approach. One such approach is performance management and appraisal. Although the evolution of performance measurement can be attributed to the industrial revolution time as it is inherently a human nature to judge oneself and others. Today’s business complexities and competitive priorities makes it more than judging the people, it is essentially now developing people through their work performance. Performance management and Performance appraisal play a crucial organisational and individual function of motivating people for better performance for sustainable and sustained competitive advantage.

1.2 THE RESEARCH ARENA

Due to rapid globalisation of world economy, the context and paradigm of performance in the organisational perspective has undergone sea change. Organisations now have to face competitive pressures, uncertainty, and dynamic environment and above all rising expectations of the customers that includes the external as well as internal customers. These factors have compelled organisations to manage performance of employees for achieving and sustaining their competitiveness. Performance is a behaviour that leads to results. Performance of an employee does not happen in isolation or without adequate reason. There are casual factors which include employee to perform better. Such factors are motivation, leadership, reward and compensation system, promotion system, training and development etc.

Performance appraisal system is a clear and mechanical process. By following the system, organisations can improve individual and organisational performance. Knowledge management and innovations are the most crucial for gaining competitive advantage for new economy industries. Organisational culture, managerial support, reward and recognition, promotion must be activated to the fullest to encourage people to think beyond what is already known or innovated upon, and then translated it into useful resource.

1.3 COMPETITIVE ADVANTAGE THROUGH HARNESSING INTELLECTUAL CAPITAL
Competitiveness is essence of any business. The competition is so fierce that only better than the best will survive in the long run. The traditional proponents of competitiveness emphasized physical and financial resources to be the basis of gaining and maintaining competitive advantage by the organisations. However Barney in 1991 showed the world a new avenue to gaining and sustaining competitive advantage through the organisation’s greatest asset, that is, its human resources. Ever since the concept of human resource management has gained momentum as managing employees effectively is crucial for improving organisational competence through increased level of individual performance.

The success of a competitive organisation can be measured by both objective and subjective criteria. Objective criteria include return on investment, market share, profit, and sales revenue, while subjective criteria include enhanced reputation with customers, suppliers and competitors, and improved quality delivered services (Barney, 2002). An organisation’s competitiveness can be measured by profit, ability to raise capital, cash flow in terms of liquidity status cost, quality, delivery dependability, flexibility and innovation.

According to human resource based view of the firm improved organisational performance shall accrue to an organisation when its human resources are competent and it performs optimally. It is the performance of the employees which can contribute to organisational effectiveness and success. It follows that appraising and managing employee performance is crucial for organisations for creating and sustaining competitiveness.

People are an organisation’s greatest assets and organisations have learned about the importance of the role of people in an organisation, and how the success of an organisation depends on its people. The role of human resource is absolutely critical in improving performance in an organisation. Ultimately it is the performance of many individuals that culminates into organisational performance. Armstrong (1994) says that the aims of performance management and human resources management are similar, namely to achieve sustained improved performance of organisations and employees to ensure that people develop and achieve their fullest capacity and potential for their own benefit and that of the organisation.
Performance management is a structured method of review which aims to link together individual goals, departmental purpose and organisational objectives (Marchington & Wilkinson, 2005). In this there is a strategic link between employee behaviour and performance of the organisation. The overall aim of performance management is to establish high performance culture. In this employees would be visualise as a part of their function the requirement to continually assist in improving the performance of the organisation. By harnessing and developing the potential of the individuals organisation will be best placed to achieve the strategic goals.

Armstrong (2005) describes the role of performance appraisal as a tool for looking forward to what needs to be done by people in the organisation in order to achieve purpose of the job, to meet new challenges, better use of technology skills and attributes. In addition it will develop both organisational and individual capabilities and reach agreement on areas where performance needs to be improved.

Performance appraisal is often the central pillar of the performance management process as highlighted by the CIPD (2005) survey, in which it was discovered that 65% organisations survey used individual annual performance appraisal and 27% twice yearly. Performance appraisal is the most important if the organisations to take the advantage of their most important asset, employees and gain human capital advantage.

Performance appraisal requires the following:

- Clearly defined organisational goals and objectives
- Individual or team objectives or management targets
- Properly defined standards of performance and the skills competency required to meet them;
- Regular formal review of progress; and
- System of feedback and approvals for improvement

In the present work, some of the above ingredients of effective performance appraisal system have been attempted, analysed and logically and suitably presented. Apart from this, performance appreciation through various means of reward and promotion has also been attempted and analysed. As per the requirement of the study certain thrust points of the organisations such as interchangeability/ flexibility, crisis management,
leadership style, motivation, organisational structure processes, HR developmental aspects like training and development, participation in planning and controlling activities have also been covered. By using techniques like performance HR metrics and financial performance metrics the overall performance of the selected organisations have been evaluated.

1.4 OBJECTIVES OF THE STUDY

Objective 1:

To critically examine the Performance Appraisal Systems of ITES companies with reference to its practices and processes at the different levels.

Objective 2:

HR practices and organisational structural processes are also to be examined in view of enhancement of productivity under rapidly changing business scenario.

Objective 3:

To correlate performance parameters with promotion.

1.5 ISSUES COVERED

1. Ingredients of good organisational dynamics / culture
2. Critical examination of HR developmental aspects, training norms and performance appraisal with a view to evaluate the productivity of the organisation.
3. Impact of flexibility in HR practices on the motivation and commitment of personnel in dynamic environment.
4. Prospects of HR and promotion policies of personnel of the companies
5. Drawing correlation between performance and promotion policies of ITES companies.
6. Appreciating such other problems and suggesting the dynamic organisational structures.
1.6 SCOPe OF THE STUDY

The scope of the study encompasses the performance appraisal system and promotion policies of selected ITES companies. The following parameters are taken for the study.

1. Different aspects of performance appraisal system such as method of appraisal, frequency of appraisal, criteria considered for appraisal, method of communicating the job expectations etc.
2. Assistance of performance appraisal system in HR decisions like promotion, increments and other ways of rewarding the performance.
3. Effectiveness of promotion policy.
4. Identifying the drawbacks and limitations in ITES companies which are hindering the effectiveness of performance appraisal system and promotion policy.
5. Role of flexibility in management – Organisational flexibility

1.7 METHODOLOGY OF THE STUDY

The research methodology encompasses the following aspects in an interactive and integrative manner to carry out the study:

1. Detailed questionnaire surveys to obtain primary data from Business Development Officers, Managers, Asst. Managers, Software Specialists, Senior Software Engineers, and Software Engineers in selected ITES companies.
2. Interviews with top management to synthesize their creative thinking towards various issues.
3. Evolving some techniques for organisational excellence and HR productivity.

1.8 ORGANISATION OF THE THESIS

The thesis has been divided into twelve chapters

Chapter one deals with the objectives of the study, identification of research work and inherent key issues. Finally it outlines the research methodology.
Chapter two deals with literature review which covers HRM functions, Strategic Human Resource Management (SHRM), strategic role of HR. Apart from this it also covers HR measuring and its alignment aspects integrating into a business performance system.

Chapter three exclusively deals with Performance appraisal parameters. This chapter also briefly covers Key performance indicators and modern techniques of performance measurement.

Chapter four deals with study framework and evolution of research plan. It describes the methodology of entire study culminating into synthesis and research framework.

Chapter five deals with leadership and motivational aspects. The study includes the concept of leadership, leadership – performance relationship, motivation framework, motivation through incentives and much more.

Chapter six exclusively deals with the typical functioning of Information Technology (IT) Company. The study takes review of IT industry in terms of ITES and BPO. It also discusses innovation through IT and business alignment.

Chapter seven reveals various reward dimensions. The study covers different reward mechanisms, the concept of promotion and various issues related to promotion policy.

Chapter eight deals with innovation and knowledge manifestations. It covers IT service business innovation framework, IT services offering innovation, knowledge management advantage, and different perspectives of knowledge management.

Chapter nine deals with empirical study (questionnaire analysis). This chapter brings out revealing findings from the selected organisations.

Chapter ten deals with the qualitative analysis, i.e. interviews with employees working at the top management level. This brings out the insights about the organisation, their
main core strengths and weak-links for further enhancement of organisational productivity.

**Chapter eleven** deals with synthesis and discussion of the results of the entire study. The emerging determinants reveal that adequate interchangeability, continuum management and HR flexibility exists in the organisations. The linkages significantly evolve into a model for achieving higher productivity.

**Chapter twelve** presents a summary of the major findings and the recommendations for implementation of effective performance appraisal system and promotion policy. The significant contributions made in this work have been highlighted and limitations of the study are also brought out. Specific suggestions have been made regarding possible areas of future research work.

1.9 **CONCLUDING REMARKS:**

In the present study, some ingredients of good organisational dynamics/ culture HR developmental aspects have been attempted under changing business scenario and analytically presented. Identification of flexibility needs and creating flexibility in management systematically for higher productivity has been attempted. While evaluating performance appraisal system and promotion policy of the selected ITES companies; performance metrics and financial performance metrics of the ITES companies are also brought out.

Eventually it will be observed from the present study that this research methodology and findings may help in better functioning of the organisations. A review of literature on related aspects of the study is presented in the next chapter.