CHAPTER 2
LITERATURE REVIEW

2.1 INTRODUCTION

Human Resource Management (HRM) is an approach to managing the human resources of organisations, which recognizes the importance of an organization’s human resources for contributing to its goals and objectives and the utilization of several functions and activities to ensure that they are used effectively and fairly for the benefit of the organisation, the employees and society. The notion of human resource management indicates that people management can be a key resource to sustain competitive advantage. This belief is based upon four perspectives:

People can make difference as human capability and commitment distinguish successful organisations and people need to be treated as assets and not costs;

Managing human resource in fact is an important ‘strategic’ matter,

Line management showed engage in managing human resources; and

The key levers must be in internally integrated with each other and externally integrated with business strategy.

Human Resource Management involves acquiring, developing and utilizing people in business. It is the process of acquiring, training, developing, motivating and appraising employees to the activities required for achieving the goals and objectives of the organisation in such a way that employees are satisfied and efficient. This chapter takes the review of traditional functions of HRM and covers in detail the strategic role of HR, and SHRM.

2.2 FUNCTIONS OF HUMAN RESOURCE MANAGEMENT

The primary functions of Human Resource Management are human resource planning, recruitment and selection, training and management development, performance appraisal, compensation and providing employee benefits and satisfaction.

- **Human Resource Planning:** starts with job analysis and forecasting the demand and supply of people. Job analysis is the procedure for collecting and recording information about jobs. Forecasting of internal supply, external supply, current
available employees, future plans, economic environment, etc. are considered in demand and supply analysis.

- **Recruitment and selection:** of human resource may be internal and external. Internal recruitment adheres to current employees for higher jobs in the organisation. External recruitment follows advertising, campus interview, assessment etc.

- **Socialization:** When new employees enter an organization they feel out of place because of the new surroundings, new boss and new co-workers. Hence, it is the responsibility of the management to orient the employees and to make the process of socialization smooth. This will ensure that the new employees adapt to the organizational culture as soon as possible.

The process of adaptation is commonly termed induction or socialization.

The socialization process is not confined to employees entering new organizations. It is also important for employees moving within the organization as a result of lateral transfers and promotions. Orientation is only a small part of the overall socialization program. The process of orientation includes introduction of the new employee to the organization and to his work unit and supplementing the information given to him during recruitment and selection.

- **Performance Appraisal:** is a systematic and formal process by means of which the job relevant strengths and weaknesses of employees are identified, observed, measured, recorded and developed. Appraisal is important in the sense that unless it is proper, job performance cannot be properly diagnosed.

To develop human resources, training and development facilitates employees to accomplish their present jobs effectively and to get them prepared for future assignment. For assessing the training needs, performance appraisals are followed.

Based on performance appraisal, compensation adjustments are made. This helps in deciding compensation, enhances recommendation for promotion and other feedback.
2.3 HUMAN RESOURCES AS A STRATEGIC PARTNER – THE PRESENT AND THE FUTURE

The general scenario in most companies is as follows. HR management teams have well-developed visions of their departments, their roles and responsibilities. But, the senior management is generally skeptical of HR’s role in the firm’s success. They generally consider HR to just be another necessary appendage but not something that can contribute to the success of the company. Even if the senior management does believe that human capital is their most prized possession and asset, they cannot understand how the HR team can make this belief come alive.

There is one reason for all of this. Human capital is an intangible asset and HR’s influence on firm performance is difficult to measure. The standard elements of a firm’s resource architecture that are measured include total compensation, employee turnover, cost per hire, percentage of employees that undergo performance appraisals and percentage employee satisfaction. The question to be asked is: Are these the measures crucial to implementing the firm’s strategy? This is clearly not the case. Interesting attributes would include a committed workforce, competency development programs, etc. But, it is very difficult to imagine measures for these quantities. Hence, in the current state of HR there is a clear rift between what is measured and what needs to be measured.

The role of HR is no more just administrative. It has a much broader, connected and strategic role to play. But, these statements must be substantiated. The reasons why HR must be considered as a strategic asset must be highlighted. A strategic asset is something difficult to trade or imitate. They are normally a set of scarce, special or even exotic resources and capabilities that bestow a firm its competitive advantage. An unlikely paradox is that the very intangibility of human capital that makes it so difficult to measure and evaluate, also proves to be the one quality that makes it a strategic asset. Consider the difference between being able to align employee efforts with the company’s strategic goals and instead having innovative policies of performance appraisals. The latter is a policy. It is visible to competitors and can be easily copied. The former on the other hand is a strategic move. It is not easy to imitate since it is a very circumstantial effort, which depends on the specific firm, its goals and its people. This proves to be a strategic asset i.e. something that competitors cannot see but that can be utilised to gain a competitive advantage. It is thus important to align the HR strategy
to the overall business strategy signifying a top-down approach as opposed to a bottom-up approach where each division such as marketing, HR etc. performs its standard individual roles without a clear outlook towards the firm’s strategy.

Many firms have realized this and have made efforts to measure HR’s influence on the firm’s performance. However, most of these approaches seem to focus on the individual, as it is believed that if one can achieve an improvement in individual employee performance, it would automatically enhance the performance of the organisation. The point that is missed is the fact that organisational units, be it individuals or teams, do not function in isolation. The stress is on streamlining and cooperatively working towards a common goal. The individualistic approach once again does not show directly, in measurable values, the competitive advantage that can be gained. Financial policies and numbers and plans on the other hand do. HR is neglected in the process.

2.4 STRATEGIC HUMAN RESOURCE MANAGEMENT (SHRM)

Strategic human resource management or SHRM is a branch of HRM. It emerged from the discipline of human resource management and is a fairly new field. Strategic HRM is defined as “the linking of human resources with strategic goals and objectives in order to improve business performance and develop organizational culture that foster innovation and competitive advantage.” SHRM in an organization means “to accept and involve the functions of HR as a strategic partner in formulating and implementing the company’s strategies through human resource activities which may involve recruiting, selecting, rewarding and training company personnel. In spite of the similarity in names, HRM and SHRM are two different practices; SHRM is basically a part of the complete HRM process. Besides that SHRM focuses more on long-term objectives rather than the in-house objectives with employees dealt by HRM. In the late 1980’s writers started stating strong opinions for a much more strategic approach to managing people than was the standard practice of that time. They clamored for the change of traditional management practices of industrial relations and people to the modern more improved ones.

The center point of SHRM is to address and solve problems that effect management programs centering on people in the long run and more than often globally. We can say that the main goal or objective of SHRM is to increase productivity not only in the
employees but in the business overall, it achieves this by focusing on business problems and obstacles outside of the human resources range. SHRM identifies important human resource areas where strategies can be implied for the improvement of productivity and employee motivation. To achieve good results communication between human resource and top management of the organization is of utmost importance as cooperation is not possible without active participation.

### 2.4.1 KEY FEATURES OF SHRM

The key features of strategic human resource management are given below:

Some organizing strategies or schemes link individual human resource interventions so that they are ‘mutually supportive’

- A great amount of responsibility is transferred down the line for the management of HR.
- There is a precise link between overall organization strategy, organization environment, HR policies and practices.

### 2.4.2 DEVELOPMENT IN SHRM

In recent times HRM professionals have been facing challenges with employee participation, performance management, employee reward systems, high commitment work systems and human resource flow because of globalization. Traditional models and techniques have no place in today’s business world; also local companies which go global cannot use the same tactics in the global business world. Top managements and HR professionals that are involved in strategic human resource management face a wide range of issues which include some of the following:

- Introduction of new concepts of general management
- Globalization of market integration
- Increased competition, which may not necessarily be local
- Resultant corporate climates
- Constantly changing ownership
- Cross-cultural issues
- Economic gravity- shifting from developed to developing countries
- Rapid change in technology
Strategic Human Resource Management (SHRM) is crucial large as well as small companies. In small companies this process may be as simple as the manager or the owner himself taking time to observe employees, along with assisting, assessing and giving regular reviews. However larger companies will require a whole department to be in charge of such activities for the development of employees. The quality of staff members can be improved by meeting their needs in such a way that it may benefit the company. Investing in employees and providing them with tools they need to thrive and prosper in the company proves to be a good investment in the long run for the company.

Purcell and Boxall (2003) argue that, “Strategic HRM is concerned with explaining how human resource management influences the performance of an organization.” They also point out that, “Strategy is not the same as strategic plans.” Strategic planning defines how things need to be done and it usually takes place in larger organizations in the form of a formal process. However, it is also true that strategy exists in all organizations regardless of their size; though it may not necessarily be written down or expressed. SHRM defines how the organization behaves and tries to cope with its business environment. Because strategic human resource management is based on human resource management principles it always incorporates the concepts of strategy; which proves that human resource management is actually a coherent approach to the management of people.

2.4.3 BUSINESS STRATEGY AND SHRM

All good business strategies, at least the ones which have a chance of succession are formed by “the people factor”. One of the main factors behind reporting human capital data and evaluation is the need for proper information; to be fed into the business strategy formation procedure. People have become the biggest asset in the majority of organizations. This requires for the skills, abilities and knowledge to be organized and implemented for maximum effect so that the organization may create value. The intangible value of organizations lies in the people that it employs. This value is being recognized by investors and accountants and in now generally accepted that it has signs of sustained performance in the long run. In this case it would be too simplistic to suggest that strategic human resource management is part of business strategy. In this case, the two must be mutually informative in the way people are motivated, managed, deployed and the availability of knowledge and skill should shape business strategy. It
has now a regular occurrence to find strategic human resource management inextricably linked with and also incorporated into business strategies.

2.5 STRATEGIC ROLE OF HR

Organizational human resources have grown as a strategic emphasis because effective use of people in the organization can provide a competitive advantage. The strategic role of HR management emphasizes that the people in an organization are valuable resources representing significant organizational investments. For HR to play a strategic role it must focus on the longer-term implications of HR issues.

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<th>Traditional HRM Function</th>
<th>Emerging Human Resource Practice</th>
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<td>Administrative Focus</td>
<td>Strategic focus</td>
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<td>Reactive</td>
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<td>Separate and isolated from company function</td>
<td>Key part of organisational mission</td>
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<td>Production focus</td>
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<td>Functional organisation with vertical-</td>
<td>Process based organisation</td>
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As people become the key competitive advantage in any industry especially banking, the human resource (HR) development function will and should play a more strategic role. It should go beyond its mere administrative support function to operations and front line departments. Whether or not company views HR strategically may decide whether market share, sales, or profits would increase or not. An effective HR strategy becomes equally decisive as the company’s marketing strategy.

Technology too is changing HR roles. As industries, specifically the banking industry, and the way they compete become knowledge-based, HR performance indicators will shift from manpower and man-hours supplied to brainpower and brain hours delivered. The key result areas in people management will also shift from production and quantity to productivity and quality. Capability, measured in employee ideas generated and implemented, and productivity gained, will be more important than capacity, measured in man-hours available, man-hours lost, absenteeism, etc.
The current HR function is very much configured like the company’s purchasing department. People, like parts and supplies, are requisitioned by user departments based on depletion and growth rates of their operations. Both resources are screened for quality control and cost or budget constraints. The only slight difference is that unlike purchased parts, people are trained or prepared before they are sent to the requisitioning parties which may train them further before actual deployment or usage. HR is also involved in the replacement, termination and retirement process of unusable people assets, much like the handling of depreciated equipment. In short, most HR systems exist only for replenishment and maintenance of a resource called people.

Strategic HR does not abandon these administrative responsibilities. Otherwise, no other department in the company will carry out these “operations-sustaining” activities. But its main task is to participate in corporate strategy rather than support administration. Strategic HR is more proactive rather than reactive in its relationships with the other functional areas. It is more concerned about what its internal customers need in the future to compete globally. Strategic HR managers do not wait for instructions, requisition or complaints. It does its homework, does research on the future, and offers proactive solutions and strategic advice.

Strategic HR is output driven rather than input oriented. For instance, training results are measured not in terms of training hours or number of trainees per year, but in terms of improvement in the trainee performance attributable to the training. Performance improvement can be in terms of productivity, efficiency, quality of work (defects), customer satisfaction or conversely, number of customer complaints received. Strategic HR personnel are concerned with these results as much as the operating departments it serves. In spite of the fact that output results are more difficult to measure than input deployed, strategic HR aims to find ways and means to directly and indirectly measure these more accurate metrics of its success and effectiveness.

Strategic HR is mainly pre-occupied in moulding the employees of the future today. For organizations to survive and excel in the future, its needs to develop or acquire employees who are multi-skilled, cross-functional, empowered, team players. In addition, they have to have high emotional intelligence (EQ) and capable of thinking
“out of the box” about the future. They should be capable not only of improving their work, but reengineering or reinventing it if necessary. Front liners who are engaged in millions of “moments of truth” meeting customers, must have superior flexibility, resourcefulness, and excellent memories especially if their task requires greeting customers by their first or last names. Strategic HR keeps these employee attributes as its goals while conducting its basic processes of recruitment, training, job rotation, career pathing, and performance appraisal.

For this reason, conventional performance appraisal has become a highly politicized, controversial, wasteful exercise that creates more disharmony than teamwork in the organization. Strategic HR appraises people on the more relevant output performance like quality, productivity, internal and external customer satisfaction. If negative criteria are used, these become defects or rework, wastes, and internal and external customer complaints or returns. In banking, performance appraisal may include lost calls, closed accounts, queuing time, and clerical errors, ATM downtime, improvement projects. Strategic HR aims to change employee behaviour and attitude by directly connecting his appraisal (and eventually his pay) to what actually matters to corporate performance and customer satisfaction. It puts less weight on nebulous criteria like teamwork, attendance, boss satisfaction, and neatness.

HR is no longer a backroom or support function. It is in the forefront of corporate strategy, much like sales and marketing. It provides and determines competitiveness to an ever increasing degree. All other things being equal – financial, physical, and product assets – people will make the difference between two competing companies. Strategic HR can make this difference happen.

2.6 HUMAN RESOURCES AND ORGANISATIONAL PERFORMANCE

Human resources create competitive advantage for organisations; therefore organisational performance depends to a large extent on the performance of employees. It is imperative for organisations to evaluate the performance of employees on continuous basis in order to a) ascertain the gap between current level of performance and desired level of performance and b) to improve the performance of employees to reduce the gap. Performance management and appraisal is an instrument which serves
both the goals. Hence, performance management and appraisal is a crucial tool in the hands of the management to foster the competitiveness of their organisations.

There are number of approaches to link human resources to organisational performance, seeking to explain how best to manage employees for attaining optimal organisational performance. These are as follow:

1. **Contingency or ‘fit’ approach**: Under this approach, it is believed that there should be a vertical linkage between HR policies and practices on one hand and organisational strategy on other hand. It follow that HR strategy should emanate from organisational strategy so that efforts, commitment and performance of employees is governed by organisational strategy.

2. **Universal or best practice approach**: Under this approach, it is believed that good HR practices tend to increase the motivation, commitment and performance of employees. Best practices such as employment security, selective hiring, self – management teams, high compensation contingent on performance, training, reduction of status differentials, and sharing information ensures employees satisfaction and they tend to put their hearts and souls in achieving goals in achieving the goals and objectives of the organisation. It follows the best HR practices to improve employee performance and productivity.

3. **Configurational approach**: Configurational approach emphasises the patterns or configurations of HR practices that predict superior performance when used in association with each other, or the correct strategy, or both. In order to be effective, an organisation should develop an HR system that achieves both horizontal and vertical fit. Thus, this approach focuses upon use of proven best HR practices, keeping a delicate balance between choice and mix of these practices in tandem with organisational requirements and environmental demands.
2.7 MANAGING PERFORMANCE FOR EFFECTIVE ORGANISATIONAL OUTCOMES

In order to achieve the goals and objectives of the organisation, it is important to integrate employee outputs/outcomes with organisation strategy. There are various approaches for integrating employee efforts and outcomes with organisational strategy such as fit, best practices and Configurational approaches. Depending upon the context and competitive priority, an organisation may choose any one or combination of these approaches. Once these approaches have been formulated and implemented, it is crucial for the management to ascertain the outcome of the integration efforts. In order to do so, an instrument or technique is required which is both valid to measure the organisational outcome. One such technique is ‘performance management’. It is a tool to extend the organisation strategy to achieve the strategic objectives of the organisation. It helps to identify the competencies required for optimum performance of human resources activities, develop suitable behavioural model, adjust it with various organisational and external forces and plan, assess and quantify the desired human resource outcomes for organisational performance.

Thus, performance management serves as a measure of organisational performance by assessing employee’s performance and contributions. Thus, the evaluation provides the current level of performance vis-a-vis organisational performance. This helps an organisation carry out gap analysis between its current performance levels with respect to the desired level. The gap becomes the basis of initiating measures for developing employee performance so that organisational performance and consequently outcomes can be improved.

2.8 MEASURING HR ALIGNMENT

In any corporate sector it can be emphasised that for human resources legitimately to be productive, requires two dimensions of HR alignment – HR Architecture and ‘Firms strategy implementation process’ to be aligned to become a strategic asset.

These dimensions provide the foundations and focus for developing actual alignment metrics. The strategic HR system is designated not form the bottom –up (i.e. best practices) but from the ‘top – down’.
Figure 2.1: HR Alignment (Source: From Becker et. al., 2001)

Figure depicts a desirable / suggested HR alignment where in the horizontal line (axis) depicts a dimension of alignment within the HR Architecture that influences the overall development of human resources as a strategic asset. “HR Role” designates the degree to which HR professionals in an organisation perceive themselves as strategic partners and the extent to which managers outside HR share the same view (Becker et. al., 2001).

The first is the alignment between HR system that produces key HR deliverables and the requirements of the firm’s strategy implementation system. Second, is the alignment between the role expectations for the HR function and the individual competencies required to put that role into action.

Figure 2.2: Internal and External Alignment measures on Continuum between HR system and Strategy Map
Together, both types of alignment produce a strategically focussed workforce; which drives superior strategy execution and, ultimately, shareholder value.

2.9 PERFORMANCE

According to the Compact Oxford English Dictionary (p.839, 2002) performance is defined as the action or process of performing’.

Another definition of the word represents the ‘capabilities of a machine or product’. Lebas (1995), on the other hand, defines performance as the prospective likelihood to carry out particular actions in order to successfully achieve set goals within the given time frame and of the actor and the situation. The author continues to emphasize that a specific term for performance is one that many find it somewhat difficult to agree upon. Different parties have differing ideas about what performance actually represents (Venkatraman and Ramanujam, 1986; Armstrong, 2000).

Performance in one context can carry a completely different meaning when used in a disparate environment. For example, performance in a computer network environment can mean the effectiveness and efficiency of the equipments used in telecommunication attempts. Alternatively, performance in a business deal may denote to complete and deliver obligations that have been agreed upon based on a written contract between the seller and the purchaser. On the other hand, performance can be defined as the actual results achieved compared to results that were expected or desired (Dess and Robinson, 1984). A room for improvement or a need for reassessing the prior actions taken exists when the actual performance falls below expected results. The difference in actual results compared to what was expected is called a performance gap. Thus performance improvement is needed to narrow the gaps, if any exists.

Still some schools of thought prefer to consider performance as a blend of behaviours and outcomes as defined by Brumbrach (1988, cited in Armstrong, 2000):

Performance means both behaviours and results. Behaviours emanate from the performer and transform performance from abstraction to action. Not just the instruments for results, behaviours are also outcomes in their own right – the product of mental and physical effort applied to tasks – and can be judged apart from results.

This definition takes on the idea that performance involves both the actions (behaviours) taken during the process of attempting to achieve targets and outputs as the
results from the effort. Following this, Armstrong (2000) emphasizes the need for managers to address the potential of employees and accomplishments while managing performance.

Nevertheless, performance should be about achieving or accomplishing targets that has been set prior to executing the work or act. Similarly as suggested by Venkatraman and Ramanujam (1986), “… performance is the time test of any strategy”. If the appropriate amount of effort is given to accomplish expected performance, excellence is achievable. Moreover, the definition of performance very much depends on the situation and its constraints besides who holds the decision making with regards to the performance achieved (Lebas, 1995).

2.9.1. FACTORS AFFECTING PERFORMANCE

Performance is affected by a number of factors, all of which should be taken into account. These comprise:

- **Personal factors** — the individual’s skill, competence, motivation and commitment.
- **Leadership factors** — the quality of encouragement, guidance and support provided by managers and team leaders
- **Team factors** — the quality of support provided by colleagues
- **Systems factors** — the system of work and facilities provided by the organization
- **Contextual (situational) factors** — internal and external environmental pressures and changes

**Individual Performance Factors:**

Three major factors affect how a given individual perform. The factors are:

1. Individual ability
2. Efforts expended
3. Organisational support

\[
\text{Performance (P)} = \text{Ability (A)} \times \text{Efforts (E)} \times \text{Support (S)}
\]

This equation implies that any given individual's performance in a given period and in a given role or job (or set of tasks that constitute the role) is a function of his competence
to do that job or role or set of tasks associated with that role, multiplied by his interest or motivation to do that job and the support he gets to do that job during that period.

Nevertheless, to determine if performance is achieved, measures have to be developed to evaluate the accomplishments and establish the rate of completion. Most of all, performance should not be about producing reports. Instead it should be about the decision made or direction taken with the available information of the current situation. At this point, performance measurement and performance management comes into the picture.

**2.23 PERFORMANCE MANAGEMENT**

Armstrong (1994) says that the aims of performance management and human resource 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 their organisation. Furthermore, performance management empowers people in a way that latent potential can be realized, and to strengthen or change positively the organization’s culture.

In recent years, performance management has become more important because managers are under constant pressure to improve the performance of their organisations. It is now realized that the performance of organisations influence the organisation’s continued existence and success. The increasing realization that one of the key roles of managers is to manage employee’s performance is key to the success of management in general and performance management in particular. Due to the realisation that people are the most valuable assets in an organisation, the importance of performance management has been pushed to the fore (Barlett and Ghoshal, 1995).

Performance management is a system used by organisation to achieve its objectives of utilizing human capital optimally. Performance is a relative concept defined in terms of some referent employing a complex set of time based measurement of generating future results (Corvellec, 1995).

Performance Management is a wider concept than performance appraisal. This is because performance appraisal comes in a play while performance management starts with an organisation’s goals and objectives until individual development plans are put in place. 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 and competency required to meet them;
- Regular formal review of progress; and
- Systems of feedback and approvals for improvement

Appraisal being part of performance management plays a pivotal role in encouraging desirable performance and discourages undesirable performance before they become ingrained.

Armstrong and Baron define performance management as 'a process which contributes to the effective management of individuals and teams in order to achieve high levels of organisational performance. As such, it establishes shared understanding about what is to be achieved and an approach to leading and developing people which will ensure that it is achieved'. They go on to stress that it is 'a strategy which relates to every activity of the organisation set in the context of its human resource policies, culture, style and communications systems. The nature of the strategy depends on the organisational context and can vary from organisation to organisation.'

In other words performance management should be:

- **Strategic** - it is about broader issues and longer-term goals
- **Integrated** - it should link various aspects of the business, people management, and individuals and teams.

It should incorporate:

- **Performance improvement** - throughout the organisation, for individual, team and organisational effectiveness
- **Development** - unless there is continuous development of individuals and teams, performance will not improve
- **Managing behaviour** - ensuring that individuals are encouraged to behave in a way that allows and fosters better working relationships.
Armstrong and Baron Stress that at its best performance management is a tool to ensure that managers manage effectively; that they ensure the people or team they manage:

- know and understand what is expected of them
- have the skills and ability to deliver on these expectations
- are supported by the organisation to develop the capacity to meet these expectations are given feedback on their performance
- have the opportunity to discuss and contribute to individual and team aims and objectives.

It is also about ensuring that managers themselves are aware of the impact of their own behaviour on the people they manage and are encouraged to identify and exhibit positive behaviours.

**2.24 PERFORMANCE MANAGEMENT SYSTEM**

Performance management is a system for integrating the management of Organisational and employee performance. According to the system model of performance management (Spangenberg and Theron, 2001), performance management is viewed as a system comprising of inputs, processes, outputs and linkages to other systems.

Performance management system refers to the mechanism comprising methods for planning, managing, reviewing, rewarding and developing employee’s performance with active support of organisational goals and objectives and a feedback oriented environment.

Williams (as cited in Fletcher, 2001) provides for three models of performance management namely;

- Organisational Performance Management: Managing the performance of the organisation.
- Employee Performance Management: Managing the performance of the employees and
- Organisational Employee Performance Integration: Integrating the management of organisational and employee performance.
Performance management is the current buzzword and is the need in the current times of cut throat competition and the organizational battle for leadership. Performance management is a much broader and a complicated function of HR, as it encompasses activities such as joint goal setting, continuous progress, review and frequent communication, feedback and coaching for improved performance, implementation of employee development programmes and rewarding achievements. The process of performance management starts with the joining of a new incumbent in a system and ends when an employee quits the organization. Performance management can be regarded as a systematic process by which the overall performance of an organization can be improved by improving the performance of individuals within a team framework. It is a means for promoting superior performance by communicating expectations, defining roles within a required competence framework and establishing achievable benchmarks.

According to Armstrong and Baron (1998), Performance Management is both a strategic and an integrated approach to delivering successful results in organizations by improving the performance and developing the capabilities of teams and individuals. The term performance management gained its popularity in early 1980’s when total quality management programs received utmost importance for achievement of superior standards and quality performance. Tools such as job design, leadership development, training and reward system received an equal impetus along with the traditional performance appraisal process in the new comprehensive and a much wider framework. Performance management is an ongoing communication process which is carried between the supervisors and the employees throughout the year. The process is very much cyclical and continuous in nature. A performance management system includes the following action

- Developing clear job descriptions and employee performance plans which includes the key result areas (KRA’s) and performance indicators.
- Selection of right set of people by implementing an appropriate selection process.
- Negotiating requirements and performance standards for measuring the outcome and overall productivity against the predefined benchmarks.
- Providing continuous coaching and feedback during the period of delivery of performance.
• Identifying the training and development needs by measuring the outcomes achieved against the set standards and implementing effective development programs for improvement.

• Holding quarterly performance development discussions and evaluating employee performance on the basis of performance plans.

• Designing effective compensation and reward systems for recognizing those employees who excel in their jobs by achieving the set standards in accordance with the performance plans or rather exceed the performance benchmarks.

• Providing promotional/career development support and guidance to the employees.

• Performing exit interviews for understanding the cause of employee discontentment and thereafter exit from an organization.

A performance management process sets the platform for rewarding excellence by aligning individual employee accomplishments with the organization’s mission and objectives and making the employee and the organization understand the importance of a specific job in realizing outcomes. By establishing clear performance expectations which includes results, actions and behaviors, it helps the employees in understanding what exactly is expected out of their jobs and setting of standards help in eliminating those jobs which are of no use any longer. Through regular feedback and coaching, it provides an advantage of diagnosing the problems at an early stage and taking corrective action.

2.25 PERFORMANCE MEASUREMENT SYSTEM

Radnor and Lovell (2003a) explain the term performance measurement system as a means of gathering data to support and coordinate the process of making decisions and taking action throughout the organization. The measurement system is a crucial element in ensuring the successful implementation and execution of strategies identified by the organization in achieving their strategic goals (Fitzpatrick, 2002; Radnor & Lovell, 2003a). Meanwhile, Pink et. al. (2001) see performance measurement as the process of quantifying past action, focusing on both efficiency and effectiveness of the action taken.

According to Chang and Young (1995), performance measurement provides organization with focus, direction, a common understanding and knowledge for making
better business decision besides providing feedback on the organizational improvement efforts. Because performance measurement is always linked to a goal or an objective, it gives the management the means to maintain control and monitor the progress of the organizations towards achievement of their overall vision (Aidemark, 2001), through the successful implementation of the strategy chosen. However, with the rapid changes in the modern businesses environment, many organizations have become dissatisfied with the traditional backward looking performance measurement systems by identifying their shortcoming and arguing for change (Aidemark, 2001). Eventually, the new situation causes the old systems to be inefficient and no longer effective and thus becoming inappropriate to the organizations. This creates new challenge for senior executives in assessing the performance measurement.

2.26 TRENDS, ISSUES AND CHALLENGES IN ASSESSING PERFORMANCE MEASUREMENT

The viability and survival of today’s business organizations are very much influenced by the new strategies adopted in the highly dynamic environments that facilitate their businesses. Eccles (1991) argues that these new strategies and competitive realities require new measurement systems because traditional systems that stress on the financial indicators can no longer justify the need of the modern business entities. He explains that globalization, growing competition, increased public sophistication and active consumerism have all contributed to the shifting of the performance measurement systems manifest towards the non-financial indicator themes such as customer satisfaction and service quality. To be successful and competitive, organizations require a more holistic and balanced approach in measuring their performance that not only display yesterday consequences as shown by the financial indicators but also capable of predicting future performances through utilization of the non-financial measures which are known to be forward-looking (MacStravic, 1999). As the trend of advancement in the performance measurement moves towards this direction, concern and recognition on the existing trade-offs issue between different measures, for example between quality and cost (Morisawa, 2002) and between short-term financial return and long-term competitive position, need to be addressed by the management in a more explicit manner due to the impact on the nature of the businesses. At the same instance, the practice of strategic management begins to spread rapidly into modern business entities as more managers acknowledge the importance of being able to communicate their business strategies across to the other organizational members for the purpose of
alignment and attainment of the business strategic goals and objectives. Because measurement provides the link between strategies and actions, the type of performance measurement system is a barrier to organizational development if inappropriate measures are applied. This is because such measures tend to lead to actions, which are incongruent with the strategies no matter how well they are formulated or communicated through the organizations (Oliveira, 2001).

Therefore, the challenge for most management leaders is to examine the entire data and reports and weed out the inappropriate measures from the appropriate ones (Chang & Young, 1995), so that these appropriate measures can provide and strengthen the link between actions and strategies in order to achieve organizational strategic goals and overall vision (Amaratunga et al., 2001). Simply put, assessing performance measurement system is a vital task as measuring the right variables. This, according to Brown (1996), will ensure the future success of the organizations. As a result, there is an increasing awareness among today’s well-trained managers on the need to search for an integrated performance measurement system that can both strategically measure the financial and operational aspects of their businesses, which are seen as truly essential in creating healthy and balanced organizations (Birch, 2000). While the need to take up the challenge in assessing the performance measurement is real and the potential solution is available, changes to the existing performance measurement system are often difficult and slow. Finding the appropriate modern approaches that can help them to accomplish their tasks in addressing the weakness and limitation in their existing systems is not without problems. Usually the management teams have had their fair share of dilemma, for example when the leaders introduce a new performance measurement approach to the organizations without really going into the details of understanding the process of populating the new measurement framework. Such action will definitely defeat their original purpose of getting a more effective and efficient performance measurement system because without understanding the process, the new framework will have no practical value to them (Pink et al., 2001).

2.27 HOW TO MEASURE EMPLOYEE PERFORMANCE?

The most difficult part of the performance appraisal process is to accurately and objectively measure the employee performance. Measuring the performance covers the evaluation of the main tasks completed and the accomplishments of the employee in a given time period in comparison with the goals set at the beginning of the period.
Measuring also encompasses the quality of the accomplishments, the compliance with the desired standards, the costs involved and the time taken in achieving the results.

Measuring employee performance is the basis of the Performance appraisal processes and performance management. Accurate and efficient performance measurement not only forms the basis of an accurate performance review but also gives way to judging and measuring employee potential.

For the purpose of measuring employee performance, different input forms can be used for taking the feedback from the various sources like the superior, peers, customers, vendors and the employee himself. All the perspectives thus received should be combined in the appropriate manner and to get an overall, complete view of the employees’ performance. Observation can also be exercised by the superior to obtain information.

- Clearly define and develop the employee plans of action (performance) with their role, duties and responsibilities.
- Organizational outcomes or the achievement of organizational goals should also be kept in mind.
- Focus on accomplishments and results rather than on activities.
- Also take note of the skills, knowledge and competencies and behaviors of the employees that help the organisation to achieve its goals.
- If possible, collect the feedback about the performance of the employees through multi-point feedback and self-assessments.

For an organisation to be an effective organisation and to achieve its goals, it is very important to monitor or measure its’ and its employee performance on a regular basis. Effective monitoring and measuring also includes providing timely feedback and reviews to employees for their work and performance according to the predetermined goals and standards and solving the problems faced. Timely recognition of the accomplishments also motivates the employees and help to improve the performance.

Measuring the performance of the employees based only on one or some factors can
provide with inaccurate results and leave a bad impression on the employees as well as the organisation. For example: By measuring only the activities in employee’s performance, an organization might rate most of its employees as outstanding, even when the organisation as a whole might have failed to meet its goals and objectives. Therefore, a balanced set of measures (commonly known as balanced scorecard) should be used for measuring the performance of the employee.

Financial measures like the return on investment, the market share, the profit generated by the performance of the team should also be considered.

2.28 BALANCED SCORECARD APPROACH TO MEASURE PERFORMANCE

To evaluate the organisational and employee performance in performance appraisal management processes, the conventional approach measures the performance only on a few parameters like the action processes, results achieved or the financial measures etc. The Balanced scorecard – an approach given by Kaplan and Norton provides a framework of various measures to ensure the complete and balanced view of the performance of the employees.

The four Perspectives recommended by Kaplan and Norton for the managers to collect information are:

- **The financial measures** – The financial measures include the results like profits, increase in the market share, return on investments and other economic measures as a result of the actions taken.

- **The customers’ measures** - These measures help to get on customer satisfaction, the customer’s perspective about the organisation, customer loyalty, acquiring new customers. The data can be collected from the frequency and number of customer complaints, the time taken to deliver the products and services, improvement in quality etc.

- **The internal business measures** – These are the measures related to the organization’s internal processes which help to achieve the customer satisfaction. It includes the infrastructure, the long term and short term goals and objectives, organisational processes and procedures, systems and the human resources.
• **The innovation and learning perspective** - The innovation and learning measures cover the organisation’s ability to learn, innovate and improve. They can be judged by employee skills matrix, key competencies, value added and the revenue per

**2.29 HR SCORECARD APPROACH TO MEASURE PERFORMANCE**

As David Norton—co-author of a 1992 *Harvard Business Review* article introducing the concept of a Balanced Scorecard—notes in his Foreward, human capital is the foundation of value creation in the New Economy. Yet, the dilemma is that this asset that is most important is the least understood and least prone to management. *The HR Scorecard* attempts to provide that measurement tool.

The authors note that in the past, HR has been concerned with measuring performance in terms often unrelated to the corporate strategy. The problem with this is that what HR has traditionally measured may not be important for organizational success. The authors recommend that HR managers divide their key efficiency metrics into two categories: core and strategic. Core measures are those that make no direct contribution to the firm’s strategic implementation; strategic measures assess HR deliverables. Focusing on strategic measurement tools improves upon past practices by first focusing on the corporate strategy, then building the measurement tools top-down.

*The HR Scorecard* provides many benefits to HR professionals, including the following:

- It reinforces the distinction between HR and HR deliverable
- It enables to control costs and create
- It measures leading indicator
- It assesses HR’s contribution to strategic implementation and ultimately
- It lets HR professionals manage their strategic responsibilities
- It encourages flexibility and change

**2.30 PERFORMANCE APPRAISAL**

Human resources are one of the greatest assets of any organisation because they create competitive advantage. Performance appraisal form the central part of performance management (Bernardin et al.1998). Performance appraisal is an important
organizational phenomenon, since the beginning of the twentieth century; organisations have attempted to measure several aspects of their activities through various means and indicators including employee performance. Therefore every employee needs to be competent, that is to have adequate knowledge, requisite skills and right attitude which must be evaluated and developed on periodic basis as a part of Organisational process. Performance appraisal should gather systematic and reliable information about an employee’s work by means of formal and standardized system.

Performance appraisal is one of the most important functions of a manager and can only be learned by training, practicing and gaining experience. Performance appraisal is an essential management technique, which seeks to increase an employee’s performance in order to get more productivity through goal setting and also provide a rational basis of various managerial decisions pertaining to human resources of the organisation. Thus, performance appraisal is a systematic and objective way of judging the relative worth or ability of an employee in performing the job.

The term performance appraisal consists of two words viz. ‘performance’ and ‘appraisal’. Performance means what is expected to be delivered could be stated in terms of output, result, efforts, tasks, and quality, time, focus and cost dimensions. Appraisal means the evaluation of worth, quality or merit. Thus, Performance appraisal is the systematic description of the employee’s job relevant strengths and weaknesses. The need for performance appraisal arises because every person has different personality, situational, social, psychological and physiological traits. Performance appraisal is an assessment of an employee in performing job. It brings out the differences of performance among the employees working in an organisation. Employee performance is the degree to which employees accomplish job requirements. It is a continuous process of measuring quantitatively and qualitatively an employee’s past or present performance against the background of performance criteria within the ambit of his job role and about his future potential for an organisation.

Thus, performance appraisal refers to an assessment of an employee’s performance, including the measures of:

- **Productivity:** This quantifies the outputs and inputs of an employee and expresses the two as a ratio. Generally, the ratio is expressed as output to input.
• **Effectiveness**: it determines the relationship of an employee’s outputs to organisational goals and objectives.

• **Quality**: it examines an output or the process by which an output is produced. Quality is indicated by attributes such as accuracy (or error rate), thoroughness, and complexity and

• **Timeliness**: which evaluates the time involved producing an appropriate output.

Performance appraisal also known as performance review, formally documents the achievements of an individual with regards to set targets. Unlike performance contract, performance appraisal is documented at the end of a formal evaluation period where the strengths as well as the weaknesses of the individual are reviewed based on the results from PM (Aguinis and Pierce, 2008). Complete dependence on performance appraisals alone to determine the accomplishments of individuals in ensuring excellence is reached, may lead to the discovery of underperformance at the very last minute when measures for improvement can no longer be implemented to improve the situation. Therefore it is important to understand that performance appraisal is one of the substeps of performance management in ensuring excellent performance management.

Nevertheless performance appraisals provide a formal review and documentation of performance where both the employee and the respective manager can offer feedbacks with regards to the results of the evaluation (Pulakos, 2007). It should be clarified that the performance appraisal is not the sole responsibility of the management. Instead it should be used as a tool by the employee to discover self development needs (Kirkpatrick, 2006). Furthermore, the performance appraisal can be used as a justification in support of future development for the employee whether for career advancement or workshops for growth of skills and knowledge required to continually achieve excellence. Besides that, the results from a performance appraisal are useful to determine if the plans for the future direction of the organisation are feasible and what measures to take to evade any future untoward situations. The organisational benefits of using performance appraisals can be simply summarized as below (Farr and Levy, 2007). According to Farr and Levy (2007), the performance appraisal can fetch several organisational benefits by researching on the results from performance reviews to study the usefulness and effectiveness of development programmes that potentially identifies
the needs of employees and clarify individual responsibilities while providing the justifications for career advancements.

Employee acceptance towards a performance appraisal is strongly dependent on the perceived trust in the superiors that the management has sufficient experience to perform the evaluations and that the management supports the needs of the staff. In addition to that, when employees are encouraged in influencing the results of the performance appraisal through personal feedback, the satisfaction of staff toward a performance appraisal can be significantly improved and strengthened (Whiting et al., 2008).

### 2.3.1 Planning Performance Appraisal System

Performance appraisal is a systematic and objective process of determining job related behavior and results of employees and assessing their potential for future leadership roles in the organisation. According to Dessler (2002), performance appraisal is defined as evaluating an employee’s current or past performance relative to his or her performance standards. It therefore involves the following:

- Setting a work standard
- Assessing the employee’s actual performance relative these standards.
- Providing feedback to employee with the aim of motivating that person to eliminate performance deficiencies or to continue to perform above par.

Performance appraisal aims to determine the relationship between the individual effort and results, as well as between individual results and the attainment of organisational goals and objectives. There is no ideal or standardized performance appraisal procedure since its scope depends mainly upon the organisational goals and objectives and the purpose of the appraisal, as well as on the skills of the appraisers and on the appraisal methods involved.

Basic steps of Performance Appraisal System:

1. Establish performance appraisal policies (when and how often to appraise performance, who should do it, the criteria for appraisal and the methods and techniques and the forms/formats to be used.
2. Analyse the jobs, reviews (write) job descriptions, clarify functions and responsibilities,
3. Gather data on employee performance
4. Discuss feedback on accomplishment, rating and the areas that need improvement with job holder
5. Separate training solutions from non – training solutions and
6. Make suggestions on training and development policies and programmes.

Appraisals can be both formal as well as informal. Informal performance appraisal entails unplanned activities and casual observation or judgement of employee’s performance. Formal performance appraisal involves systematic and laid down procedure for evaluating performance of employees in terms of quality, quantity, timeliness, cost effectiveness, need for supervision and interpersonal impact.

2.32 JOB ANALYSIS IN PERFORMANCE APPRAISAL SYSTEM

Job analysis involves a systematic investigation of jobs using a variety of methods to determine essential duties, tasks and responsibilities.

There are three different approaches to job analysis as follows:

1. Task-based approach: describes work in terms of outcomes or tasks completed.
2. Behaviour-based approach: describes work in terms of generalized behavior; and
3. Trait-based approach: describes work in terms of the human abilities and personality characteristics necessary for performing a given job.

Job analysis results in creation of job description and job specification. Job description deals with the tasks, duties and responsibilities associated with a job or position while job specification deals with qualification, experience, ability, knowledge, skill and training required by a job holder for successful performance of a given job. Job analysis finds many applications in the organisation. One of the most crucial applications pertains to performance appraisal system. Job analysis is the foundation on which the entire system of performance appraisal is built. To appraise performance, a systematic job analysis is first required. Job analysis facilitates standards for performance appraisals and allows appropriate classification/reclassification of positions. This is a process where questions are asked about what employees do, and what skills, abilities, characteristics, traits and personalities are required to do the job well.
Performance appraisal generates information about an employee’s performance, skills and abilities. Instead of simply deciding on an absolute basis about whether an employee is fit for his job or not, appraisals are better seen as instruments used to paint a profile of an employee’s strengths and weaknesses.

2.33 TYPES OF PERFORMANCE APPRAISAL

Performance appraisal aims to meet the needs of the organisation and the individual employee. It is a management system for fostering employee development and organisational growth. Types of performance appraisal are as diverse as the types of organisations employing them.

1. Closed-ended performance appraisal system:

In a closed-ended appraisal system, employee does not have any participation. The performance appraisal and ratings assigned to an individual on his performance is never shown to the employee. It is called a confidential system as it is assumed that showing performance appraisal and rating plans will lead to conflict and stress. Consequently, employees generally do not know how their performance is viewed by the managers and whether their performance is adequate or not. They are also unclear about specific improvement areas as no feedback is given to them. Close ended performance appraisal systems are widely in practice in government organisations, defense services and many public undertakings.

2. Open-ended performance appraisal system:

In an open-ended appraisal system, employees are active participants of the appraisal system. The performance appraisal and ratings are discussed between the manager and employee in an enabling atmosphere and it is freely shared with the employees. The objective is to know how well an employee has performed his job and to provide feedback for developing performance of the employees. The openness instills a sense of confidence and increase transparency of the performance appraisal system. Due to these reasons, performance appraisal system tends to be evaluative and developmental in nature. Most of the private sector organisations, multinational enterprises and leading public sector organisations practise open ended systems.
The Information Technology (IT) sector in India is amongst the fastest growing in the country and the world. It is expected that by the year 2008, IT software and services industry will account for 7 per cent of India’s GDP and 35 per cent of total exports.

The Indian domestic IT market grew by 29% in the financial year 2007-08 to report revenues of Rs 288, 810 crore. The revenue of the information technology sector has grown from 1.2 per cent of the gross domestic product (GDP) in FY 1998 to an estimated 5.5 per cent in FY 2008. The net value added by this sector, to the economy, is estimated to be 3.3 to 3.9 per cent for FY 2008.

The Indian IT-BPO sector grew by 33 per cent in FY 2008 to reach US$ 64 billion in aggregate revenue (including hardware). Of this, the software and services segment accounted for US$ 52 billion, growing by 28 per cent over FY 2007. Software and services exports (including exports of IT services, BPO, engineering services and R&D and software products) reached US$ 40.4 billion, contributing nearly 63 per cent to the overall IT-BPO revenue aggregate.

IT-BPO exports (including hardware exports) grew by 28 per cent from US$ 31.8 billion in FY 2007 to US$ 40.9 billion in FY 2008.

The Indian IT services market is estimated to remain the fastest growing in the Asia-Pacific region with a CAGR of 18.6 per cent. IT enabled Services (ITES): The IT / ITES industry's contribution to the country's gross domestic product (GDP) has grown from 1.2 per cent in FY 1998 to an estimated 5.5 per cent in FY 2008. The net value-added by this sector, to the economy, is estimated at 3.3-3.9 per cent for FY 2008.

The Indian IT-ITES sector (including hardware) grew by 33 per cent in FY 2008 to reach US$ 64 billion in aggregate revenue. Of this, the ITES/BPO sector contributed US$ 12.5 billion as against US$ 9.5 billion in FY 2007, an increase of 31 per cent. The Indian ITES-BPO exports grew significantly from US$ 8.4 billion in FY 2007 to US$ 10.9 billion in FY 2008 while the revenues of domestic BPO grew to US$ 1.6 billion in FY 2008 from US$ 1.1 billion in FY 2007. The sector provided direct employment to 700,000 in FY 2008 up from 553,000 in FY 2007.
Table 2.1 IT/ITES Industry Size in India (2007-12)

(Value in Rs. Crore)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>CAGR 07-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic IT/ITES Market</td>
<td>90,014</td>
<td>110,177</td>
<td>133,100</td>
<td>158,053</td>
<td>182,991</td>
<td>209,698</td>
<td>18.4%</td>
</tr>
<tr>
<td>IT/ITES Exports Revenue</td>
<td>156,594</td>
<td>186,142</td>
<td>218,107</td>
<td>250,087</td>
<td>284,666</td>
<td>320,278</td>
<td>15.4%</td>
</tr>
<tr>
<td>India IT/ITES Industry Size</td>
<td>246,609</td>
<td>296,319</td>
<td>351,207</td>
<td>408,139</td>
<td>467,657</td>
<td>529,976</td>
<td>16.5%</td>
</tr>
</tbody>
</table>

2.34.1 Foreign Direct Investment (FDI) Policy

100% FDI is permitted in the Electronic hardware sector and the Software development sector under the automatic approval route. Industrial Licensing has been virtually abolished in the Electronics and Information Technology sector except for manufacturing electronic aerospace and defence equipment.

2.34.2 IT / ITES Export Trends

The Software exports are projected to grow by $9 billion to $50 billion in fiscal 2008-09 from $41 billion in fiscal 2007-08 and $32 billion in fiscal 2006-07.

Exports contribute nearly 65% of the Indian IT sector revenue. The United States and Britain are the biggest markets for India's booming software exports, accounting for about 80 percent of the country's $12-billion exports per year.

ITES/BPO exports grew by over 30 per cent from the previous year collecting revenues of US$ 10.9 billion in FY 2008.
Table 2.2 Export Figures of India’s IT Industry  
(USD Billion)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IT Services</strong></td>
<td>10.4</td>
<td>13.5</td>
<td>17.8</td>
<td>23.7</td>
</tr>
<tr>
<td>Exports</td>
<td>7.3</td>
<td>10.0</td>
<td>13.13</td>
<td>13.13</td>
</tr>
<tr>
<td>Domestic</td>
<td>3.1</td>
<td>3.5</td>
<td>4.5</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>ITES-BPO</strong></td>
<td>3.4</td>
<td>5.2</td>
<td>7.2</td>
<td>9.5</td>
</tr>
<tr>
<td>Exports</td>
<td>3.1</td>
<td>4.6</td>
<td>6.3</td>
<td>8.3</td>
</tr>
<tr>
<td>Domestic</td>
<td>0.3</td>
<td>0.6</td>
<td>0.9</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Engineering services, R&amp;D and Software products</strong></td>
<td>2.9</td>
<td>3.9</td>
<td>5.3</td>
<td>6.5</td>
</tr>
<tr>
<td>Exports</td>
<td>2.5</td>
<td>3.1</td>
<td>4.0</td>
<td>4.9</td>
</tr>
<tr>
<td>Domestic</td>
<td>0.4</td>
<td>0.7</td>
<td>1.3</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>Hardware</strong></td>
<td>5.0</td>
<td>5.9</td>
<td>7.0</td>
<td>8.9</td>
</tr>
<tr>
<td><strong>Total IT industry</strong></td>
<td>21.6</td>
<td>28.4</td>
<td>37.4</td>
<td>47.8</td>
</tr>
<tr>
<td>Exports</td>
<td>13.4</td>
<td>18.2</td>
<td>24.1</td>
<td>31.9</td>
</tr>
<tr>
<td>Domestic</td>
<td>8.3</td>
<td>10.2</td>
<td>13.2</td>
<td>15.9</td>
</tr>
</tbody>
</table>

Although for exports, the US (61 per cent) and UK (18 per cent) continue to be the largest markets for IT-ITES exports, the share of Europe has been increasing steadily. Exports to Continental Europe have grown at a compound annual growth rate (CAGR) of more than 55 per cent over FY 2004-07. The ITES sector is also working towards reducing its dependence on the US market and is exploring new and emerging markets such as those in Australia and the Middle East.

2.34.3 Key Players:

The following are India’s Tier 1 companies in the IT sector:

1. Tata Consultancy Services Ltd.
2. Wipro Technologies Ltd.
3. Infosys Technologies Ltd.

The other key players include the following:

1. IBM,
2. HCL,
3. Patni,
4. Polaris,
5. Cisco,
6. KPIT Cummins,
7. Kanbay,
8. i-Flex Solutions,
9. Cognizant,
10. Sapient
11. Mphasis.

2.3.4.4 Global IT players in India:

There are a large number of multi-national IT enterprises operating in India in sectors such as: Integrated Chip Design, System Software, Communication Software, R&D Centres, Technology Support Sector, Captive Support Sector, BPO Sector etc. Reaping the cost and quality advantages. These multinationals include Siemens, Philips, Intel, Texas Instruments etc. (Chip Design); Siemens, Motorola, Lucent Technologies, Sony, Nortel etc. (Communication Software); Microsoft, Oracle, Sun Microsystems, HP, Compaq etc. (Systems Software); Google, Yahoo etc. (R&D Centres); Axa Business Services, Swiss Shared Services, Siemens Shared Services etc. (BPO Sector); Accenture, DELL, HSBC, GE Capital, Fidelity etc. (Captive Support Sector).

2.3.4.5 Localization of the IT industry:

The Indian state of Karnataka dominates other Indian states in terms of attractiveness as an IT destination with the city of Bangalore being at the topmost. Bangalore offers good infrastructure, with large floor space and great telecom facilities and is therefore the most preferred destinations of all the big banners like HSBC, Dell, Microsoft, GE, Hewlett Packard, and several Indian

Multinational firms like Infosys Technologies, Wipro, and Microland who have set up their offices in the city.

The state of Andhra Pradesh, backed by the emergence of the city of Hyderabad as a major IT hub, ranks as the second IT hub of India. This is followed by the state of Tamil Nadu and Maharashtra. The city of Chennai in Tamil Nadu is emerging as a
global capital for business process outsourcing (BPO) and is propelling Tamil Nadu to the number one position in IT

Maharashtra is the second largest exporter of software with annual exports of Rs 18 000cr (20% of India's software exports). The state has set up software parks in Pune, Mumbai, Navi Mumbai, Aurangabad, Nagpur and Nasik.

Globally branded firms have their presence in the state of Gujarat. Nasscom (National Association of Software and Services Companies) has ranked the city of Ahmedabad in Gujarat to be among the top five Indian destinations for business process and knowledge process outsourcing. The state of West Bengal is beginning to be recognized as the fastest growing IT destination in the country with more than double the national average growth rate. A number of IT majors are doing significant business in the city of Kolkata. West Bengal aims to become one of the top three IT states by 2010, contributing 15-20 per cent of the country's total IT revenue.

2.34.6 Growth of the Indian IT Sector

The Indian information technology sector is one of the sunshine sectors of the Indian economy showing rapid growth and promise. The Indian IT-BPO sector is estimated to reach a target of US$ 60 billion in exports and US$ 73-75 billion in overall software and services revenues by 2010.

India's information and communication technology market is estimated to grow 20.3 per cent annually to reach US$ 24.3 billion by 2011. The Indian IT and ITES market is estimated to grow at the rate of over 16 per cent to become a US$ 132 billion industry, significantly, the domestic market alone is expected to become over US$ 50 billion, with a CAGR of about 18.4 per cent. Simultaneously, the IT and ITES exports are estimated to more than double to US$ 78.62 billion by 2012.

Leading international companies have identified custom application development and maintenance as priority areas due to high offshoreable component. The demand for domestic BPOs has been largely driven by faster GDP growth and by sectors such as telecom, banking, insurance, retail, healthcare, tourism and automobiles.

ITES now offers services such as Knowledge Process Outsourcing (KPO), Legal Process Outsourcing (LPO), Games Process Outsourcing (GPO) etc. More and more sophisticated products are being developed in India. The domestic BPO segment is
growing annually at a rate of nearly 35 - 40 %. The revenues generated by the BPO's are almost $1.18 million and the domestic market is expected to reach $10 billion by the end of the financial year 2008. If it continues to grow by the current rate then by the end of the financial year 2012 then IT and

The electronics hardware is growing at over 30% and is expected to grow rapidly in the coming years and is estimated to be US$62 billion by 2010. According to a recent World Bank study, India is the preferred location for software vendors for its quality and cost. India has strong UNIX base which provides opportunity for the development of products for internet based applications. Further, India has global connectivity with international dialing facility from over 13220 locations, Leased/switched high-speed data links from major centers through STPs and VSNL for point-to-point communication are also available.

Abundant investment opportunities exist in the following thrust areas in India:

- Communication Infrastructure
- Optic Fiber Cable
- Gateways
- Satellite based Communication Wireless
- Software Development
- IT-enables Services
- IT-enabled education
- Data Centers & Server Farms

Hence IT sector is attracting considerable interest not only as a vast market but also as potential production base by international companies. And it is one of the fastest growing segments of the Indian industry both in terms of production and exports.

2.22.7 Human Resource Assessment in IT Industry

IT Industry Human Resource Assessment include the following policies and practice.

Orientation: Common characteristics of orientation programmes for new employees are meetings with senior executives and discussions of history, values, traditions and business objectives.
**Work environment:** A majority of the employers in the IT Industry share information mainly to keep employees informed about their business.

**Rewards and recognition:** The stated philosophy of many organizations is to attract, retain and motivate the best available talent.

Broadbands are used by very few organizations. None uses a "pay-the-person" approach wherein an incumbent’s pay is determined by the skills/competencies he/she possesses.

**Health and well-being:** IT companies generally provide comprehensive medical coverage for their employees, with most organizations focusing on giving wide coverage to all employees.

**Time, work and life:** A variety of dependent care assistance programmes, convenience services, amenities and alternative work arrangements are provided by IT organizations. Sick, vacation and personal leave are the main types of leave provided by high-tech firms. Most organizations have a standard working week of five days, eight hours a day.

### 2.22.8 Performance Appraisal Practices in IT / ITES Companies

The first step toward carrying out performance appraisal at Infosys was the evaluation of personal skills for the tasks assigned to an employee during the period of appraisal. To evaluate the performance, different criteria like timeliness, quality of work carried out by the employee, customer satisfaction, peer satisfaction, and business potential, were considered. The personal skills of the employees were also evaluated based on their learning and analytical ability, communication skills, decision making, change management, and planning and organizing skills. Each of these criteria was measured on a scale of 1 to 5 (with 1 signifying above the expected performance level and 5 below the expected performance level).

### 2.22.9 Parameters To Appraise Performance in BPO Sector

Business Process Outsourcing (BPO) is relatively a new sector in the Indian industry, but has established itself well and is growing at a rapid rate. BPO sector offers handsome initial salary, good growth and many other benefits to its employees. Keeping in mind the attrition rates in the sector, the performance measurement and appraisal processes are of extreme importance in BPO’s. It is often used as one of the
tools to retain the employees.

BPO employees have the advantage of getting performance based incentives. In most of the BPO organisations, there are well designed schemes for awarding the performance based incentives to the individuals and/or the teams as a whole. An incentive on the completion of the defined targets is a common practice in BPO’s.

The general parameters for the measurement of employees’ performance are:

- Speed i.e. process performance,
- Accuracy and
- Productivity of each process

Although the measuring parameters are different for employees at different level, but the general classification of the above mentioned parameters for "Customer care Executives" and "Team leaders" are as follows:

- Average Call Value (the sales made or the revenue collected etc.)
- Time and cost per call
- Average Handling Time (talk time and after call wrap up)
- Adherence to Schedule (availability to take calls etc.)
- Percentage of abandoned calls
- Discipline
- Attendance

According to a recent survey – "The Pay for Performance can be as much as 22% of the salary." Therefore, performance evaluation, reviews and appraisal play a vital role in the performance management in BPO sector and all the above mentioned parameters are used in performance appraisals to evaluate and review the performance of the employees.
2.22. INNOVATION MANIFESTATIONS

The phenomenal growth of the Indian IT industry albeit unintentional happened due to government decision in the late 70’s to force multinational corporations to dilute their shareholding pattern in favour of Indian investors they wanted to continue in India. As a natural progression of growth, the Indian IT industries like its global counterparts, was also polarized between companies focusing on hardware manufacturing and those taking the route of services and software development, maintenance, data programming, data processing etc. Drawing a parallel with mature industries such as auto or aircraft, the IT industry equipment manufacturer also focused on building faster and technologically improved IT equipment and also providing services around it.

Services of most IT companies, barring a few market leaders (who still focus on hardware manufacturing), constitute a major part of their business. IT companies chose one or more of the services value chain as their offering, starting from skill staffing, software development, product development, implementation and package selection and consulting services.

IT is used to in order to become more efficient, faster and perform with precision. With the advent internet and convergence, the role of the computer and communication has assumed greater importance. IT can facilitate the innovation of customer experience, internal business processes and the business model. Creativity is important for addressing cost, customer experience and competitive challenges through computers and communication technology.

IT services are all too focused on technology intervention and the measure of success in business terms rarely exists. Indicators of IT products offering success is to be linked with increased value, reduced costs and increased business effectiveness through customer delight.

IT companies should be committed to using technology to offer solutions and business benefits not just information and they should move form information to knowledge to business success. If IT companies change their focus on increasing value of the business (save time, offer convenience, accessibility, quality etc.) and decreasing cost (save
money) and being a partner in success, they will create a new value for themselves. (Dubey, 2009)

Typically information technology products and services are offered in the following areas:

- IT consulting
- System architecturing, design and delivery
- Enterprise application integration
- IT infrastructure management
- Application management

The innovation perspective would be to link the end business performance with any or many of these services. The IT services need to blend other problem solving tools and techniques while creating IT systems and integrate. (Dubey, 2009)

2.22.1 Fast Innovation

The process of creating new products, services, processes, business models and markets with sufficient differentiation and speed such that the company maintains above-average shareholder returns for decades.

2.22.2 Disruptive Innovations

Creating and embracing disruptive offerings disruptive offerings that obsolete current offerings, processes, and business models will catch the competition flat-footed and may provide great propulsive power to growth.

2.22.3 Innovation Blitz

The Innovation Blitz is a four- or five- day event where all the developers on a project meet with customers and suppliers and work only on the targeted project. The Blitz approach has only recently started gaining popularity in the innovation world. Its biggest advantage over traditional development models is the speed of results.

2.22.4 Value Innovation through Blue Ocean Strategy

The creation of Blue Ocean is about driving costs down while simultaneously driving value up for the buyers. Blue Ocean Strategy integrates the range of a firm’s functional
and operational activities. Value Innovation is created in the region where a company’s actions favorably affect both its cost structure and its value proposition to buyers.

2.23 Antecedents of Performance Appraisal: Motivation

Motivation is a set of energetic forces that originates both within as well as beyond an individual’s being, to initiate work related behaviour, and to determine its form, direction, intensity and direction.

Motivation can be both intrinsic (or internal to an individual) and extrinsic (or external to an individual). According to Gagne and Deci (2005), “intrinsic motivation involves people doing an activity because they find it interesting and derive spontaneous satisfaction from the activity itself. Extrinsic motivation in contrast, requires an instrumentality between the activity and some separable consequences such as tangible or verbal rewards, so satisfaction comes not from the activity itself but rather from the extrinsic consequences to which the activity leads”.

One of the primary goals of all managers is to motivate employees to achieve the highest level performance of which they are capable of delivering. Higher employee motivation leads to greater creativity, productivity and discretionary effort which in turn leads to improved organisational performance.

Moses (2002), there is certain key steps to increase employee’s motivation for better performance as follows:

- Managers need to communicate frequently with employees to convey that the organisation is dependent on the employees and their dedication to excellence in aspect of their work;

- The organisation must establish a close relationship with managers and key employees to develop a plan for achieving increased performance in every department. The plan could include special financial incentives or perquisites, employee recognition awards, and employee training. Motivating the employees and have them working together will help them focus on what is important and continue doing a great job.
• Before organising and developing a performance plan or performance development plan, the manager has to learn all there is about employee’s motivation. Focus on processes that help to enhance the involvement of employees at the organisation and inspire feelings of responsibility for the organisation’s overall success;

• Manager should set up employee suggestion schemes, focusing on how to improve performance productivity.

• The organisation has to encourage manager’s step to the front lines and become as pragmatically involved in the day – to – day operations of the business as possible.

• Managers should be creative and encourage creativity among employees in the organisation. They should search for ways to improve processes and performance so as it might become cheaper, faster and more efficient.

• Assign specific tasks and goals to individual employees or to teams. Having goals for which they are responsible and for which they will be recognised upon successful completion is a surefire motivator.

• Have regular organisational meetings to encourage team commitment and build group enthusiasm. At these meetings, emphasis is to be given on positive accomplishments not on the failures.

• Continually present new motivational encouragement to employees, in the forms of professional speakers, new organisational goals, and new products and services.

2.24 Performance and Leadership

Ultimately, it is the individual employee who either performs, or fails to perform a task. For an organisation to perform an individual must set aside his personal goals, at least in part, to strive for the collective goals of the organisation. The very nature of performance is defined by the organisation itself. Employees are of paramount
importance to the achievement of strategic objectives of any organisation. The successful organisations have one major attribute that sets them apart from unsuccessful organisation; dynamic and effective leadership. It has been widely accepted that effective organisations require effective leadership and that organisational performance will suffer in direct proportion to the neglect of this. Furthermore, it is generally accepted that the effectiveness of any set of people is largely dependent on the quality of leadership – effective leader behaviour facilitates the attainment of the follower’s desires which then results in effective performance.

2.25 Participative Leadership

Employee’s participation refers to the inclusion of employees in decision making process in the organisation. The extent to which the employee’s participation is possible and desirable is a very controversial issue as it entails political overtones (Allan, 2003). Leadership is not a single track process, but it is a process of mutuality. Organisations with leadership committed to participation of employees in decision-making are able to win the hearts and souls of their human resources. In such employees are more involved, committed and accountable for their output/outcomes. Thus, employee’s involvement in designing and implementation of performance appraisal is both desirable and necessary so that employees are aware of the performance targets, the level of performance expected from them, knows the rating plans, and outcomes of the performance appraisal process is a mutual and shared process of partnership.

2.26 Leadership Process

Effective leadership is determined by the degree to which it facilitates adequate or high performance and productivity. There may be no management style that could be effective in every situation as different work situations need different styles if they are to perform optimally. Effective appraisal system requires managers or leaders, who are highly flexible, adaptive and committed towards developing performance of the employees. Unless managers are not committed towards the instrument of performance appraisal, the results will be sub –optimal. Non – commitment of managers to performance system often is a major reason for failure of the system in many organisations because there is no managerial ownership towards the system. This often results in lowering down the credibility of the system as a whole.
2.27 EMPLOYEE COUNSELING FOR IMPROVING PERFORMANCE

Counseling aims to help employees to improve their performance through a process of mutual communication, support and commitment. Performance Counseling is one of the most crucial and day-to-day activity of the managers.

Counseling for improving job performance of employees involves the following steps:

1. **Identifying the performance problem:** Managers should clearly communicate to the employees that his performance affects the bottom line of the organisation. Therefore, he needs to improve his performance by addressing the performance concern with the help of the manager. Managers should explain the level of performance expected of the employee in order to contribute effectively to the goals and objectives of the organisation and the level of performance actually exhibited by the employee as measured through performance appraisal system.

2. **Getting employee comments:** Managers must encourage and provide ample opportunities to the employees to let him express himself fully. This is important from the view point of assessing and clarifying the scope of performance problem. Sometimes the problem can be out of control of the employee which therefore needs to be understood. Problems in performance may arise from deficiencies in knowledge, skills and abilities, behavioural styles, personal crisis or resource constraints. Managers should listen and think through the employee comments for understanding him and his performance problem in better manner.

3. **Agreeing on a solution:** Managers should help the employee to generate various options on solutions to performance problems and choose the best alternative. Managers would provide resource support and guidance, as necessary, for realizing the chosen solution.

4. **Action Plan:** Managers must generate action plan along with the employee with the object of seeking employee’s commitment for change within agreed timeline. The action plan makes it clear that the employee has to improve performance and increase his present level of performance to the desired level of performance.

5. **Feedback on improvement:** Managers need to follow-up on the progress achieved by the employee in improving his performance problem on a periodic basis. Feedback further helps in correcting any deviation from action plan.
2.28 IMPLICATIONS OF PERFORMANCE APPRAISAL: COMPENSATION MANAGEMENT

Milkovich and Newman (2007), define compensation management as “all forms of services and benefits employees receive as part of employment relationship”.

Thus compensation is a broader term which includes wages, salary, pay, perquisites, fringe benefits, performance incentives, commissions, bonuses, stock options, remuneration, etc. Compensation management is a process to reward employees financially and non-financially for their work, performance and contributions in order to achieve high level of organisational performance keeping in view the following factors:

- Ability of the organisation to pay
- Labour Market (internal and external) conditions
- Government regulations in relation to compensation
- Economic, social, political and technological environment
- Equity considerations in compensation
- Psychological contract
- Building competitive advantage by organisations.

2.29 CORRELATION BETWEEN COMPENSATION MANAGEMENT AND PERFORMANCE APPRAISAL

Performance Appraisal is a process aimed at determining the results of an employee’s work, one of its main functions being to offer a justified compensation for his efforts.

There is a tendency to rely on the link with compensation, to do the managing for some employees, that is, they hope that the compensation link will motivate employees who dislike their jobs;

There is an increased need to help people understand what good performance looks like for appraisal to work for the organisation; If just a few high performers are rewarded handsomely, the organisation needs to deal with the possible de-motivating effect it has on average performers, not all will see it as an incentive to improve; and if there is no link between performance appraisal and compensation, top performers may leave the organisation and join organisations which directly reward superior performers.
To analyse the employee’s performance, diverse appraisal methods and their combination are used. During the appraisal process, primarily those work results are valued that create pre-conditions for their improvement in the future and enable differentiation between compensation rates, thereby, on the one hand, diminishing equalization and on the other hand, increasing fair compensation. The decision based on evaluation can be backed up by properly documented performance appraisals which can also include additional documentation in the form of a journal, notes, diaries and other materials.

2.30 CAREER DEVELOPMENT

Career development refers to the life long process of fostering and cultivating the shape of the individual’s working life so as to make the best use of inherent talents, skills, knowledge and interests for that person. It is concerned with the potential of employees and situations in which they are or may be at the moment and after that. It often carries a strong overtone of promotion and upward moment.

Career development is vital to the individual employee as it is a step towards self-actualisation. It contributes at the deepest level to working effectiveness, motivation and personal fulfilment, not only in working life but spreading also at social spheres of individual’s life. Before starting to develop one’s career, an individual has to make through consideration of possible solutions. Those solutions imply all the connections and correlations between one’s needs, abilities, preferences and wishes, and capabilities, needs and possibilities. Career development has an individual and organisational aspect. Therefore, the needs, aspirations and requirements of employees and organisations should be matched. If matches and correlations between those two important actors work, then both parties can achieve positive results. The matching between the organisation’s and individual’s needs and interests is of significant importance because employee can give their best only when they are placed on the right job and provided with right development and training but also supported with the best management.

Performance appraisal helps to evaluate the level of performance of all employees and align their career needs and potential with various job opportunities available within the organisation. It helps in differentiating better performers from marginal performers and provides growth path to the employees keeping in view their performance. It thus
motivates employees to excel in their jobs and continue to grow and derive economic, social and psychological rewards and satisfaction.

2.31. TRAINING & DEVELOPMENT

An organisation can have the greatest business model in the world and the best systems and resources, but without the talents and capabilities of its employees, it is likely to fail. Therefore, knowledge, skills and abilities of employees in making their organisations successful is of paramount importance. In this knowledge age, technology, business processes and systems change very rapidly, which requires continuous learning and training to stay abreast with latest changes in order to stay adaptable.

“Training and Development is the process of developing expertise for the purpose improving performance”.

Performance Appraisal of all employees in an organisation would reveal problems and deficiencies, some of which could be traced to the absence of required knowledge, skills, behaviour and so on. These findings could be formulated as training needs, thus providing information on which effective training programme can be developed. Training addresses short-term performance concerns as well as broadening an employee’s skills and competencies for the future responsibilities. Short – term performance issues can be addressed through training by enabling the employee to do his job correctly, effectively and conscientiously: a) correctly, in that he can apply whatever has been taught b) effectively, in that he may be in a position where he can perform to the expected standards of performance, and c) conscientiously, in that the behaviour of the trainers can bring trainees to the position where they can put their maximum effort at the right time.

2.32. KNOWLEDGE MANAGEMENT MANIFESTATIONS

The knowledge based view of the firm sees organisations as social structures whose specialisation lie in the fast and efficient transfer and creation of knowledge (Kogut and Zander, 1996).

In the knowledge economy, employees are increasingly working with data, information and knowledge rather than merely restricted to physical work. Therefore, more and more employees are categorised as knowledge human resources. In his thought on new
knowledge economy, Peter Drucker put forward the idea that knowledge workers should no longer be seen as employees but as volunteers who are paid for what they do.

Davenport (2001), describes the following changes management may undergo in knowledge organisations as follows:

- From overseeing work to doing it too;
- From organizing hierarchies to organizing communities;
- From imposing work designs and methods to understanding them;
- From building manual skills to building knowledge skills;
- From evaluating visible job preferences to assessing invisible knowledge achievements.

According to Cabrera and Cabrera (2005), performance appraisal system should be designed as a tool for encouragement of the knowledge sharing behaviours. When the organisation reinforces and recognises these behaviours, it sends a signal to the employees that it values communication and interaction.

According to Oltra (2005), “individual performance could be expanded to include proactive sharing behaviours”. Effective performance management and performance appraisal is an encouragement tool for individual performance while reinforcing organisational goals and objectives. This is achieved by establishing by performance objectives that are compatible with the overall organisational goals and objectives. This in turn promotes individual performance through performance management and performance appraisal system which leads to overall organisational competence and performance.

### 2.33. PERFORMANCE REWARD - PROMOTION:

Rewarding an employee means giving him something more than what is usually given to employees at his level. If he is rewarded as a mark of recognition for some job done well, the employee feels motivated. This recognition may be in terms of tangible benefits or non-tangible ones such as a certificate.

An employee is generally rewarded for high performance in his job over a period of time (usually a year or two).
“Promotion” is a term which covers a change and calls for greater responsibilities, and usually involves higher pay and better terms and conditions of service and, therefore, a higher status or rank.

**Promotions are usually given:**

(i) To put the worker in a position where he will be of greater value to the company and where he may derive increased personal satisfaction and income from his work;

(ii) To increase an employee’s organisational effectiveness;

(iii) To build up morale, loyalty, and a sense of belonging on the part of the employees when it is brought home to them that they would be promoted if they deserve it;

(iv) To promote job satisfaction among the employees and give them an opportunity for unbroken, continuous service.

2.34. **CONCLUDING REMARKS**

In this chapter, a review of HRM functions has been taken; strategic HR dimensions and other aspects of HR Architecture have been discussed. A brief review of IT /ITES industry, HR in IT industry, assessment of HR in IT industry, performance appraisal practices in IT /ITES companies has also been covered. HR performance drivers have been deliberated for achieving organisational excellence. Finally this chapter presents the concept of promotion which is one of the core themes of the present study.