Chapter 01 INTRODUCTION

1.0 Overview of the Chapter
This chapter begins with an introduction and definition of Employee Engagement in Section 1.1. The theoretical frameworks are explained in section 1.2 classifying them into seven categories. This is followed by an explanation on the tools for measuring employee engagement in Section 1.3. Section 1.4 presents the antecedents and consequences of employee engagement. The introduction to the concept of performance management system and its origin, the theoretical foundations and the explanation on the components (Goal setting, Performance Feedback, Mentoring, Development Opportunities) of performance management system is highlighted in Section 1.5. Sec 1.6 gives an introduction to the three industries studied by the researcher. This chapter thus sets the tone of the entire thesis.

1.1 Introduction and Definition of Employee Engagement
Kahn (1990) defines employee engagement as “the harnessing of organization members’ selves to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances”. The cognitive aspect of employee engagement concerns employees’ beliefs about the organisation, its leaders and working conditions. The emotional aspect concerns how employees feel about each of those three factors and whether they have positive or negative attitudes toward the organisation and its leaders. The physical aspect of employee engagement concerns the physical energies exerted by individuals to accomplish their roles. Thus, according to Kahn (1990), engagement means to be psychologically as well as physically present when occupying and performing an organisational role.
When people display their preferred engaged self at work, their psychological presence in the job is increased which Kahn (1992) described as being ‘fully there’ at work extending to involvement and participation.

There have been many contributions that have extended the work of Kahn, particularly in the areas of psychology (Demerouti et al. 2001a; Gonzalellez-Roma et al. 2006; Langelaan et al. 2006; Llorenset al. 2007; May et al. 2004; Schaufeli & Bakker 2004; Schaufeli et al. 2002), management (Elsey 2005; Ferrer & McWilliams 2006; Ferrer & VanGramberg 2006; Haudan & MacLean 2002; Saks 2006; Woodruffe 2005) and from the consultants (Clifton & Harter 2003; Harter et al. 2002; Harter et al. 2003; ISR 2004b; Johnson 2004; Robinson, Perryman & Hayday 2004; Towers Perrin 2006).

One key question in the past research has been ‘engagement with what?’ and in response a number of bodies of research have divided engagement into ‘work engagement’ (Demerouti et al. 2001a; Langelaan et al. 2006; Llorenset al. 2007; Schaufeli, W & Bakker 2004), ‘organisational engagement’ (Saks 2006; Schaufeli et al. 2002), ‘personal engagement’ (Kahn 1990; 1992; May et al. 2004), ‘employee engagement’ (Harley et al. 2005; Robinson et al. 2004) and ‘role engagement’ (Kahn 1990; Rothbard 2001). Arguably, a well rounded definition of engagement should encompass all these aspects. This follows the conceptualisation proposed by Schaufeli et al. (2006) where employee engagement was described as being both associated with work and the organisation. Similarly, Saks (2006) investigated job and organisational engagement using an overarching definition provided by Kahn (1990).

Kahn (1990) has defined personal engagement as the harnessing of organization members’ selves to their work roles; it means to be psychologically present when
occupying and performing an organizational role.

Schaufeli et al. (2002) define engagement as a positive, fulfilling, work-related state of mind that is characterized by vigor, dedication and absorption.

Frank et al. (2004) define engagement as the amount of discretionary effort exhibited by employees in their jobs.

Gallup Research Group defines employee engagement as the individual’s involvement and satisfaction with as well as enthusiasm for work (Harter et al. 2002). Gallup researchers use the term ‘committed employees’ as a synonym for engaged employees (Fleming et al. 2005).

Some other researchers interpret the Gallup Engagement Index as measuring how each individual employee connects with the company and the customers (Lucey et al. 2005).

Development Dimensions International (DDI), another Human Resources (HR) consulting firm, defines engagement as the extent to which people value, enjoy and believe in what they do. DDI also states that its measure of engagement is similar to employee satisfaction and loyalty (DDI 2005).

1.2 Theoretical Framework of Employee Engagement

According to Cavana, Delahaye and Sekaran (2001) frameworks enable researchers to bring together and make sense of ideas, concepts and variables that impact on research outcomes in a logical manner: ‘the framework discusses the interrelationships among the concepts and/ or variables that are deemed to be integral to the dynamics of the situation being investigated’. The supporting structure of the framework indicates how the researcher will make sense of the information in the
effort to investigate the problem.

In research on employee engagement the dominant frameworks are distinct in this supporting role and are identified in the following seven categories:

1.2.1 The Well-being’ approach
1.2.2 Burnout-engagement duality and positive psychology
1.2.3 The job demands and resources model
1.2.4 The depletion and enrichment framework
1.2.5 Social exchange theory
1.2.6 The consultant frameworks
1.2.7 Job involvement framework

1.2.1 The Well-Being Approach
Schaufeli et al (2002) investigated engagement and disengagement, under the umbrella term: well-being. Well-being was identified as a higher order construct of the two items: engagement and disengagement. Essentially, well-being can be described as the positive emotional state of an employee and consists of two dimensions: activation and identification. This builds upon the taxonomy of the independent dimensions of activation and pleasure introduced by Watson and Telling (1985). Activation incorporates the continuum of human states from exhaustion to Vigor. Identification, on the other hand incorporates the range in attitude from cynicism to dedication. Together, these also represent a reflection of either engagement or burnout. Thus, the well-being framework links with the positive psychology approach and the burnout/engagement duality.

Herter et al (2003), from The Gallup Institute, also took a well-being approach in their investigation of engagement. They identified that employee well-being encompasses
employee engagement. The Gallup Workplace Audit (GWA) (Harter et al. 2002; Harter et al. 2003) which is also known as the Q12 (Echols 2005), was used by Gallup researchers to measure the distinction between employees being engaged, disengaged or ‘not engaged’ at work. The difference between the two frameworks is structured in the type of engagement the researchers were investigating. Schaufeli et al. (2002) were interested in work engagement while Harter et al., (2003) focused on their broader term of employee engagement.

In support of the GWA, Luthans and Peterson’s (2002) scholarly contribution, found that the GWA conceptually fitted some of the ideas proposed by Kahn (1990) that personal engagement is the degree of self a person presents in their work roles. Briefly, people can express themselves through being physically, emotionally and cognitively engaged. Luthans and Peterson (2002) found that the GWA fitted with the emotional and cognitive engagements. The well-being approach proposes a way of looking at and investigating engagement. In particular, it points to a link with the burnout/ duality and the positive psychology Framework.

1.2.2 Burnout-Engagement Duality and Positive Psychology

In addition to the well-being approach, other engagement research builds on the original burnout literature (Demerouti et.al. 2001a; Gonzalez-Roma et al. 2006; Langelaan et al. 2006; Maslach & Leiter 1997; Maslach, Schaufeli&Leiter2001; Schaufeli & Bakker 2004; Schaufeli et al. 2002). Freudenberger (1974) first introduced the term ‘burn-out’, which was followed by the seminal work of Maslach (1982). Burn-out was conceptualised by Freudenberger as having aspects of exhaustion and being worn out from the work being done. Maslach and Leiter (1997; 2000) built an engagement framework from the burnout literature identifying the ideas of energy, involvement and professional efficacy as engagement. In other
words, they argued if you are engaged at work, it follows that you have high energy, high levels of involvement and an increased sense of professional efficacy. Engagement according to Maslach and Leiter is the exact opposite of burnout.

Three engagement elements reflect opposite scores on the three burnout elements: exhaustion, cynicism and lack of professional efficacy. Subjects scoring low scores on cynicism and exhaustion and high scores on lack of efficacy would indicate an engaged employee (Leiter & Maslach 2000). Such a score would also predict a high rating on the activation and identification dimension as propositioned in the well-being framework (Schaufeli et al. 2002). Schaufeli and Bakker (2001, in Schaufeli et al. 2002; Schaufeli & Bakker 2004) progress the idea of engagement and burnout further, through developing a counter engagement scale. Their research used a positive psychology approach and a well-being framework which in essence examined the positive aspects of optimal human functioning rather than the dysfunctions (Csikszentmihalyi 1996; Seligman & Csikszentmihalyi 2000). Despite Maslach and Leiter’s (2000) assertion that burnout and engagement are opposites, Schaufeli et al.’s (2002) work suggested that burnout is not the exact anti-pole to engagement. Instead, Schaufeli et al. (2002) indicate that engagement and burnout should rather, be measured independently of each other. This is because from a positive psychology viewpoint, with a specific focus on overall well-being, burnout is the ‘erosion of engagement in the job’ (Schaufeli et al. 2002). The research on engagement in this area has focused on the engagement aspects of vigor, dedication and absorption. High scores on all engagement elements would indicate an engaged employee (Demerouti et al. 2001a; Demerouti et al. 2001b; Demerouti et al. 2003; Gonzalezellez-Roma et al. 2006; Langelaan et al. 2006; Llorens et al. 2007; Schaufeli & Bakker 2004; Schaufeli et al. 2002).
Alternatively, low scores on the engagement dimensions do not indicate burnout. You can be present in a job requiring a relatively low skill level without being absorbed, dedicated or experiencing Vigor and still not be burnt out. In general, the positive psychology approach to employee engagement can be seen to link with the well-being approach in focusing on the optimal functioning of workers.

1.2.3 The Job Demands and Resources Model

More recently, an alternative framework of employee engagement was proposed by Llorens et al. (2006) who used a ‘job demands resources model’ to explain engagement, following from similar work by Demerouti et al (2001b). This model has been used to explain how employees’ working conditions influence their health and commitment to the organization (Llorens et al. 2006). It is suggested in the model that job demands and job resources can together impact on the development of burnout in individuals by influencing both exhaustion and disengagement (Demerouti et al. 2001b). Job demands have been described as encompassing ‘physical, social and organizational aspects of the job that require sustained physical and/or mental effort and are associated with physiological and psychological costs’ (Llorens et al. 2006).

Resources, on the other hand are those ‘physical, social or organizational aspects of the job that are functional in achieving work goals, reducing job demands or stimulating personal growth, learning and development’ (Llorens et al. 2006). For example, this could involve having support structures, job control and autonomy and performance feedback (Bakker et al. 2005).

Job demands and resources have an effect on employee motivation, resulting in increased engagement when they are optimal (Llorens et al. 2006). Excessive job demands are specifically linked with the burnout and negative aspects of exhaustion.
and disengagement (Demerouti et al. 2001b) and job resources have been described as the beginning of the motivational process (Hackman & Oldham 1975, 1980) with engagement being the end result (Bakker, Demerouti & Schaufeli 2005; Demerouti et al. 2001a; 2001b; Hakanen, Bakker & Demerouti 2005; Hakanen, Bakker & Schaufeli 2006). The job demands and resources frameworks investigate work engagement as articulated by Schaufeli and colleagues (2002), and is limited to the investigation of work engagement. This framework essentially provides an antecedent investigation of engagement, rather than investigating engagement as a state.

1.2.4 The Depletion and Enrichment Framework

Another framework proposed by Rothbard (2001), focuses on role engagement investigated through a depletion or enrichment framework. The depletion framework proposes that multiple engagements can lead to individuals having a ‘negative emotional response to that role’ (Rothbard 2001). In other words, multiple roles can place demand, greater obligations and pressure on an individual which lead to strain and stress, thus negative responses. The enrichment framework (role accumulation), on the other hand, according to Rothbard (2001), suggests that engaging in multiple roles can have a sustaining and enriching effect on the individual, bringing pleasurable experiences.

As with previous frameworks, the role enrichment (accumulation) model has some similarities with the well-being approach (Schaufeli et al. 2002; Harter et al. 2003). There is a focus on a greater sense of self in the positive and individually one feels fulfilled and valued.

Engagement according to Rothbard (2001) is measured via the degree of absorption and attention employees put into their role. From this perspective, attention is defined
as the time spent thinking about and concentrating on the role. Absorption, according to Rothbard (2001) indicates the intensity of one’s focus, which indicates an emotional idea. The notion of absorption is also linked to ideas first proposed by Goffman (1961) and Kahn (1990) regarding the state of absorbing oneself in role. Schaufeli and Bakker (2001) also conceptualised engagement as having a proponent, called absorption, which is the state of being fully concentrated and engrossed in a role. Mauno, Kinnunen and Ruokolainen (2007) suggest that engagement as proposed by Schaufeli and Bakker, (2004) is consistent with that provided by Rothbard (2001). These ideas suggest that the propositions about absorption are all very similar, and refer to the same emotional state. Kahn (1990) also proposed that absorption was a state of engagement but his investigation focused more on being personally engaged or personally disengaged at work (expressed physically, cognitively and emotionally). Therefore, this determines some ways in which engagement of self can be different.

1.2.5 Social Exchange Theory

Another engagement framework was proposed by Saks (2006) using social exchange theory. Social exchange theory (Blau 1964) indicates that as relationships develop, a sense of loyalty emerges along with an enhancement of trust and commitment. Saks (2006) noted that ‘obligations are generated through a series of interactions between parties who are in a state of reciprocal interdependence’. According to social exchange theory, exchanges will usually result in obligations from one to another. For example, the organisation will provide the economic resources to remain with that organisation. The employee is likely to reciprocate, according to social exchange theory. Saks (2006) proposed that the reciprocation would be in the form of engagement to the job or the organisation. Using Kahn’s (1990) conceptualisation, Saks (2006) acknowledges that employees are reciprocating by offering greater levels
of engagement to their work or organisation. They are engaging more of themselves into their work roles. The idea of social exchange theory ties in with the work of Homans (1958) who viewed social behaviours that people use as a way of reciprocal exchange. Further, Gouldner (1960) developed the idea that people create norms of reciprocation based on how the work of others is reciprocated. This would dictate how an individual behaves in social exchanges. We reciprocate the good work of others and we, as individuals create norms that indicate our future reciprocal behaviours. Saks (2006) developed his own measures of work and organisational engagement that reflected psychological presence at work. Both of the scales measured only one construct each. This is contrary to some of the other scales where engagement is reflected as multiple constructs (Kahn 1990; 1992; Langelaan et al. 2006; Leiter & Maslach 2000; May et al. 2004; Schaufeli, Bakker & Salanova 2006; Schaufeli et al. 2002). Saks (2006), utilising social exchange theory has provided a different view of engagement and one that incorporates Kahn’s psychological presence (1990) which in turn, is expressed cognitively, physically and emotionally.

1.2.6 The Consultant Frameworks

The consultant frameworks are used as a purchase product for organisations and the consultants are selling a service. This is necessary to acknowledge as they generally lack the academic rigor of the management and psychology disciplines. However they are relevant to the investigation of the concept of engagement and they can contribute to a better understanding of the diversity and similarities between the other academic frameworks. In the consultant contributions to the work on engagement, there is a focus on the emotional aspects of dominant frameworks. The consultant contributions usually incorporate the term employee engagement, because of the service they are selling, they are specifically targeting the employee potential.
The Towers Perrin (2003) framework is essentially an emotional/rational duality of engagement. This duality suggests that the emotional aspects of engagement are the emotions that employees have towards work, or their personal feelings associated with the work. Rational engagement is also referred to as rational endurance which encompasses aspects surrounding working towards the organisational goals; getting the job done: connecting individual actions to organisational goals, objectives and success.

Similarly, the Corporate Leadership Council (CLC) offers a similar framework but renames the factors: emotional and rational commitment. The change in word from ‘engagement’ to ‘commitment’ may not have significance to the consulting profession but according to Hallberg and Schaufeli (2006), academically, a clear distinction should be made between engagement and commitment. This is consistent with the findings of Rothbard (2001) and Maslach, Schaufeli and Leiter (2001) who also provide discussion on this distinction (see also Saks 2006); Bringing in commitment ideas is also consistent with Hewitt and Associates (2005) who frame engagement in terms of the emotional and intellectual commitments to the organisation. Again the distinctions between engagement and commitment are not made clear in their model. This is problematic for researchers on engagement, where there is this lack of clarity.

The ISR (2004a; 2004b; 2004c) provide a framework of engagement that encompasses cognitive, affective and behavioural components. They term this: thinking, feeling and acting, respectively. Thinking incorporates the belief in and support for the goals and values of the organisation, the affective or the ‘feeling’ aspect refers to developing a sense of belonging and attachment to, and pride in, the organisation. The behavioural or ‘acting’ aspects comprise two elements: putting in
the extra effort for the benefit of the organisation and an intention to remain with the organisation.

There are many similarities drawn between the various consultant contributions, and they are essentially simplistic frameworks for the purpose of enhancing the commercial value of their service.

Nevertheless, the consultant contributions do provide guiding frameworks for the investigation of engagement, as they also have similarities with the academic frameworks.

**Figure 1: Overview of the dominant Engagement Frameworks**

![Engagement Frameworks Diagram](image)

1.2.7 Job Involvement Framework

The phenomenon of Job involvement was first observed and presented by Lodahl and Kejner (1965) by discussing various data on the impact of job design elements on job involvement. He elaborates that job involvement is the value and significance assigned by an individual to his present job. Reitz and Jewell (1979) explicates that
job involvement is linked to, importance of work in individuals routine or daily life. The high level of importance given by an individual to his work results in loyalty towards his job as well as the organization and will also affect the performance of individual. Further job factors can influence the involvement level of individual in his job (Vroom, 1962). At workplace job involvement is high when employees are enthusiastic about their job and take part in job related matters (Allport, 1943), they see job as most important and significant part in life (Dubin, 1966). (Hackman & Oldham 1975, 1976, 1980), proposed in their job characteristics model (JCM) that features of job can affect the job involvement because these features may encourage the internal motivation of employees. From an individual employee perspective job involvement as significant to individuals own growth and satisfaction within the work environment as motivation and attitude directed to goal (Hackman & Lawler, 1971; Kahn, 1990; Lawler & Hall, 1970). Other researchers Lawler (1992) and Pfeffer (1994) also argued that through job design, job involvement could be increased. Job involvement is defined as ‘the degree to which the job situation is central to the person and his or her identity (Lawler & Hall, 1970). Kanungo (1982) maintained that job involvement is a ‘cognitive or belief state of psychological identification’. Job involvement is thought to depend on both need saliency and the potential of a job to satisfy these needs. Thus job involvement results form a cognitive judgment about the needs satisfying abilities of the job. Past research has also demonstrated that job involvement has been related to job characteristics such as task autonomy, task significance, task identity, skill variety and feedback, and supervisory behaviours such as leader consideration, participative decision making and amount of communication (Brown, 1996).
1.3 Antecedents and Consequences of Employee Engagement

Job Characteristics, Rewards and Recognition, Perceived Organizational and Supervisor Support, Procedural Justice, and Distributive Justice are the antecedents of employee engagement and Organisation Citizenship Behaviour, Job Satisfaction, Organisational Commitment and intention to quit are the consequences of Employee Engagement (Saks, 2006). Another study measured the antecedents and consequences of employee engagement using three scales of vigor, dedication and absorption. Personal, demographic and work situation characteristics were identified as antecedents of employee engagement, whereas consequences included measures of work satisfaction and psychological wellbeing (Burke, Koyuncu, Wang, and Fiksenbaum 2009).

According to Kahn (1990), psychological meaningfulness can be achieved from task characteristics that provide challenging work, variety, allow the use of different skills, personal discretion, and the opportunity to make important contributions. This is based on Hackman and Oldham’s (1980) job characteristics model and in particular, the five core job characteristics (i.e. skill variety, task identity, task significance, autonomy, and feedback). Jobs that are high on the core job characteristics provide individuals with the room and incentive to bring more of themselves into their work or to be more engaged (Kahn, 1992). May et al. (2004) found that job enrichment was positively related to meaningfulness and meaningfulness mediated the relationship between job enrichment and engagement. From a SET perspective, one can argue that employees who are provided with enriched and challenging jobs will feel obliged to respond with higher levels of engagement.

Employees’ will be more likely to engage themselves at work to the extent that they perceive a greater amount of rewards and recognition for their role performances.
Kahn (1990). Maslach et al. (2001) have also suggested that while a lack of rewards and recognition can lead to burnout, appropriate recognition and reward is important for engagement. In terms of SET, when employees receive rewards and recognition from their organization, they will feel obliged to respond with higher levels of engagement.

Psychological safety involves a sense of being able to show and employ the self without negative consequences (Kahn, 1992). Kahn (1990) found that supportive and trusting interpersonal relationships as well as supportive management promoted psychological safety. Supportive environments allow members to experiment and to try new things and even fail without fear of the consequences (Kahn, 1990). In their empirical test of Kahn’s model, May et al. (2004) also found that supportive supervisor relations was positively related to psychological safety.

Social support is also one of the conditions in the Maslach et al. (2001) model and a study by Schaufeli and Bakker (2004) found that a measure of job resources that includes support from colleagues predicted engagement. A lack of social support has also consistently been found to be related to burnout (Maslach et al., 2001).

Perceived Organizational support (POS) refers to a general belief that one’s organization values their contribution and cares about their well-being (Rhoades and Eisenberger, 2002). Employees’ who have higher POS might become more engaged to their job and organization as part of the reciprocity norm of SET in order to help the organization reach its objectives (Rhoades et al., 2001). In other words, when employees believe that their organization is concerned about them and cares about their well-being, they are likely to respond by attempting to fulfill their obligations to the organization by becoming more engaged. In addition, because employees tend to
view their supervisor’s orientation toward them as indicative of the organization’s support (Rhoades and Eisenberger, 2002). PSS is also likely to be an important antecedent of employee engagement.

The safety dimension identified by Kahn (1990) involves social situations that are predictable and consistent. For organizations, it is especially important to be predictable and consistent in terms of the distribution of rewards as well as the procedures used to allocate them. While distributive justice pertains to one’s perception of the fairness of decision outcomes, procedural justice refers to the perceived fairness of the means and processes used to determine the amount and distribution of resources (Colquitt, 2001; Rhoades et al., 2001). When employees have high perceptions of justice in their organization, they are more likely to feel obliged to also be fair in how they perform their roles by giving more of themselves through greater levels of engagement. Fairness and justice is also one of the work conditions in the Maslach et al. (2001) engagement model. A lack of fairness can exacerbate burnout and while positive perceptions of fairness can improve engagement (Maslach et al., 2001). Rasheed and Khan (2013) in their survey carried out on 303 employees working in the private and public banking sector of Lahore currently doing job in their organization from at least 2 years and having at least 2 years work experience tested the correlation between antecedents and consequences of employee engagement. Results indicate that perceived supervisor support and perceived organizational support is significantly related with job engagement and organizational engagement. There is a significant relationship between procedural justice with job engagement and organizational engagement respectively. Further it was found that there exist a significant relationship between distributive justice with organizational justice and job engagement.
1.4 Measuring Employee Engagement

Engagement is a measurable construct. There are numerous employee attitude surveys in use currently, many developed in-house by organisations’ HR departments with the aim of measuring engagement levels in the company.

There are also a number of measures produced by large consultancies and survey houses that allow organisations to benchmark their levels of engagement against data derived from hundreds or thousands of companies.

Balain and Sparrow (2009) suggest that engagement surveys represent a mechanism for employee feedback which are used periodically as a gauge to show how well the organisation is doing.

1.4.1 IES Engagement Survey

The engagement indicator consists of twelve attitudinal statements that examine organisational citizenship, organisational commitment, the extent to which individuals identify with the values of the organisation, and their belief that the organisation enables the individual to perform well. Respondents mark their level of agreement with each statement on a scale of one to five. It is also available in a shorter five statements indicator, and has demonstrated good statistical reliability (Robinson et al., 2007).

1.4.2 Gallup Workplace Audit (q12)

This measure of employee engagement is based upon the work of Buckingham and Coffman (1999), who derived 12 questions to measure employee engagement from thousands of focus groups across 2,500 business, healthcare and education units (Luthans and Peterson, 2002). The questions address issues such as understanding what is expected of you at work, having the resources to perform well, recognition
and praise, encouragement to develop, being listened to and friendships at work (Bates, 2004).

Responses to these questions have been linked to business outcomes such as bottom-line profit, productivity, employee retention, and customer loyalty and engagement. Whilst the tool has undergone tests of its reliability, Bhatnagar (2007) asserts that the q12 contains some contamination from concepts such as employee satisfaction, commitment and involvement and so further work is required to determine the validity of this measure.

1.4.3 NetPromoter®

Barclays suggest that it is possible to ‘gain a good sense of someone’s engagement by asking a simple question, would you recommend Barclays as a good place to work?’ (Barclays, 2008). This idea is the essence of NetPromoter (Satmetrix Systems, 2006).

The tool is an example of a metric for customer engagement and similar to Gallup’s (2006) idea of the engaged, almost engaged and disengaged employees, NetPromoter is based upon the premise that an organisation’s customers fall into three categories, promoters (loyal enthusiasts), passives (satisfied but unenthusiastic, may stray to the competition), and detractors (unhappy, may speak negatively of the organisation). By asking a single question, ‘how likely is it that you would recommend the company to a friend or colleague?’ these groups can be identified and organisations can get a measure of customer loyalty.

The company’s NetPromoter score is calculated by taking a percentage of the promoters and subtracting the percentage of detractors (Satmetrix Systems, 2006).
Much in the same way as customers are, employees can also act as promoters, passives and detractors.

Research suggests that being a positive advocate for the organisation is a key outcome of employee engagement (eg Scottish Executive Social Research, 2007; Penna, 2006). Measuring such word-of-mouth advertising by employees and identifying promoters and NetPromoter scores may therefore provide organisations with an engagement gauge, and an idea of where to intervene to increase numbers of the promoting engaged, and decrease the detracting disengaged.

1.4.4 Roffey Park Institute’s Engagement Diagnostic Service

Roffey Park Institute has developed an engagement scale as part of a package service to allow organisations to determine and understand their engagement levels. Their statistically validated engagement scale benchmarks organisations on four key indicators, namely employees’ commitment to the organisation, their relationships at work, the payback they receive and their feelings relating to their job and role. The service also identifies how organisations can improve employee engagement (Roffey Park Institute, 2008).

1.4.5 Towers Perrin Rapid Engagement Diagnostic Survey

This web- or paper-based survey offers the ability to measure and benchmark organisations’ engagement levels, and identifies what may drive engagement in a given organisation, and where organisations can intervene. The survey is developed from work undertaken with 40,000 employees in northern America. (Towers Perrin, 2003; Towers Perrin, 2005). The survey is grounded in nine factors that Towers Perrin propose ‘truly define’ engagement. According to Towers Perrin, the advantage
of this survey is that it is faster and cheaper than more traditional measures of engagement (Towers Perrin, 2005).

1.4.6 Utrecht Work Engagement Scale (UWES)

Based upon the Engagement-Burnout model forwarded by Maslach et al. (2001), this scale is designed to determine engagement based on the assumption that it is a ‘positive work-related state of fulfilment that is characterised by Vigor, dedication, and absorption’ (Schaufeli, Bakker and Salanova, 2006). It is composed of three scales each measuring one of these three constructs. The scale is available in long and short form (17 or 9 items). The UWES-9 has been shown to have good construct validity, suggesting high correlation to the theorised construct of engagement (Seppälä et al., 2008). Tests have shown that the three scales have good internal consistency and test-retest reliability, indicating that the scale is reliable (Schaufeli et al., 2002; Schaufeli et al., 2006), but it does lack benchmarking data. Schaufeli et al. (2006) found that the tool is a suitable measure in studies of positive organisational behaviour.

Utrecht Work Engagement Scale (UWES) includes the three constituting aspects of work engagement: Vigor, Dedication, and Absorption.

Vigor is assessed by the following six items that refer to high levels of energy and resilience, the willingness to invest effort, not being easily fatigued, and persistence in the face of difficulties.

1. At my work, I feel bursting with energy
2. At my job, I feel strong and vigorous
3. When I get up in the morning, I feel like going to work
4. I can continue working for very long periods at a time
5. At my job, I am very resilient, mentally

6. At my work I always persevere, even when things do not go well*

Those who score high on vigor usually have much energy, zest and stamina when working, whereas those who score low on vigor have less energy, zest and stamina as far as their work is concerned.

Dedication is assessed by five items that refer to deriving a sense of significance from one’s work, feeling enthusiastic and proud about one’s job, and feeling inspired and challenged by it.

1. I find the work that I do full of meaning and purpose
2. I am enthusiastic about my job
3. My job inspires me
4. I am proud on the work that I do
5. To me, my job is challenging

* This item is has been eliminated in the 15-item version of the UWES.

Those who score high on dedication strongly identify with their work because it is experienced as meaningful, inspiring, and challenging. Besides, they usually feel enthusiastic and proud about their work. Those who score low do not identify with their work because they do not experience it to be meaningful, inspiring, or challenging; moreover, they feel neither enthusiastic nor proud about their work.

Absorption is measured by six items that refer to being totally and happily immersed in one’s work and having difficulties detaching oneself from it so that time passes quickly and one forgets everything else that is around.

1. Time flies when I'm working
2. When I am working, I forget everything else around me
3. I feel happy when I am working intensely
4. I am immersed in my work
5. I get carried away when I’m working
6. It is difficult to detach myself from my job*

Those who score high on absorption feel that they usually are happily engrossed in their work, they feel immersed by their work and have difficulties detaching from it because it carries them away.

As a consequence, everything else around is forgotten and time seems to fly. Those who score low on absorption do not feel engrossed or immersed in their work, they do neither have difficulties detaching from it, nor do they forget everything around them, including time.

Completion and scoring

It takes about 5-10 minutes to complete the UWES, which can be done individually as well as group wise. The UWES may be used for individual assessment as well as for group assessment, for instance as part of an employee satisfaction survey, or a psychosocial risk evaluation. The instruction at the top of the UWES test-form is self-evident (see Appendix). If necessary, it can be checked if the subject(s) have understood the instruction.

In order to avoid answering bias that might result from specific connotations related to ‘work engagement’ this term is not used in the title of the questionnaire. Instead, the more neutral term ‘Work & Well-being Survey’ is chosen with UWES between parentheses.
The mean scale score of the three UWES subscales is computed by adding the scores on the particular scale and dividing the sum by the number of items of the subscale involved. A similar procedure if followed for the total score.

Hence, the UWES, yields three subscale scores and/or a total score that range between 0 and 6.

1.4.7 Workplace Insight Tool (WIT™)

Best Companies’ WIT is a survey of employees based on the assumption that businesses can improve engagement levels in many areas and what is key is trust, listening, flexible working and avoiding a long hours culture. Responses to the survey are analysed to explore the correlation between employee engagement and ‘areas which can be targeted for change’ (Best Companies, 2009). Organisations can explore how performance has changed over the years and benchmark themselves against other companies (Best Companies, 2009).

1.5 Introduction to Performance Management System

Performance Management System (PMS) is a set of methods and tools used to measure variables that provide feedback on efficiency. Production process and service activity productivity measures can compare current activities against the desired value and enable management to determine trends, cycles and inconsistencies.

PMS stems from control over resources. It creates processes to aid management development and reward. The core aim of performance appraisal is to focus attention onto employee’s performance. From the process of creating awareness and clarifying of expectations, management can set objectives and continuously support individuals to increase output.
Superior results can be achieved and sustained within businesses by teams of individuals. Inter-team and inter-company competition can be used to stimulate contribution to improvement schemes. Excessive competitive pressure can lead to stress. Stress is one of four phases identified by Lamming (1993) that companies in his sample have experienced while pursuing key and critical performance metric improvements. Being scrutinised during performance management reviews may induce emotional stress.

Pressure to conform to type can be a corporate imperative. A franchisee of a fast food chain, for example, has to instruct employees in how to reproduce a set of activities that have been designed and proven to be efficient in comparable restaurants in the chain. They are required to work in accordance with provided manuals and operational rules. There may be little opportunity to contribute to mature, well defined processes, especially when the franchisee, as a small or medium sized enterprise, has few spare resources to invest in process improvement and is operating under license. SME managers may not have the entrepreneurial attributes needed to develop significant insights and understanding that can then enable them to challenge the process and propose alternate - superior - methods, materials and organisation of work that will enable them to work better, faster and cheaper than competitors. Mature work environments may centralise process improvement initiatives centrally. Process engineers are likely to set targets. Any radical step changes may be broken down into incremental improvement roadmaps and project implementation plans. Key and critical performance metrics shall be defined.

Once proven to be reliable, faster and more efficient, the process owners may approve the change and schedule its role out. A cost benefit analysis may be undertaken as part of the validation and change approval process. The corporation shall then need to
disseminate the new way regionally and locally. The line management at the local site initially may be trained in the new methods. Subsequently, they may be trained to be trainers in the process, where they lead the training of others while being supervised by the more experienced or qualified central staff. There may be differences between owned and franchisee managed operations.

Where direct employees’ contribution and creativity are considered assets, a manager must lead organisational improvement by setting out the core values that the company stands for, and encouraging employees to think and act behaviour in accordance with their values and guidelines.

Values that organisations incorporate into their performance management can include quality stability and variation, customer service, teamwork, equal opportunity, health and safety. In order to focus these funds on sustainable activities, an acceptable cost of purchased goods and services may be higher than a basic price paid for commodities, under a fair trade scheme. Performance management can provide a superior income for families working in the supply chain. Total quality management philosophies have been used extensively in order to help employees understand they are to help their client; to treat them as internal or external customers. This may enable work the teams members to act well together and forge links with previous and subsequent team in order to maximise flow efficiency and create the greatest value for to their client and the business.

Performance control requires relatively accurate process descriptions to identify critical performance measures that indicate deviations from the expected value. Data on a wide range of attributes can be collected concurrently. The data should be limited to necessary values that enable objectives to be assessed against performance
goals. To management improvements in performance there seldom are easy methods that do not have downsides to their application or limitations to the value of the data obtained. A suggested structure is:

- Management commitment to develop resources
- A clear causal relationship between performance and reward (monetary and non-monetary)
- The individuals and teams active in business processes are actively engaged to achieve or surpass identified goals.
- Continuously provide feedback on performance and create development opportunities for employees.

1.5.1 Defining Performance Management System

Bititci, Carrie & McDevitt, (1997) define PMS as a “process by which the company manages its performance in line with its corporate and functional strategies and objectives”. This definition is often used in management research studies. According to Bititci, Carrie & McDevitt, (1997) it is the objective of that process to provide an integrated control system, where the corporate and functional strategies are deployed to all business processes, activities, tasks and personnel, and feedback is obtained through the performance measurement system to enable appropriate management decisions. The ultimate purpose of that process is to improve company performance.

1.5.2 Performance Appraisal

One way to review the performance and potential of staff is through a system of performance appraisal. It is important that members of the organisation know exactly what is expected of them, and the yardsticks by which their performance and results will be measured. A formalised and systematic appraisal scheme will enable a regular
assessment of the individual’s performance, highlight potential, and identify training and development needs. Most importantly, an effective appraisal scheme can improve the future performance of staff and planned career progression (Mullins 2005; Pfau et al. 2002). A comprehensive appraisal system can provide the basis for key managerial decisions such as those relating to allocation of duties and responsibilities, pay, empowerment and levels of supervision, promotions, training and development needs, and terminations (Mullins 2005; Stein 1991).

The objective of performance appraisal is to improve the performance of individuals leading to improvement in the performance of the organisation as a whole. An effective appraisal scheme, therefore, offers a number of potential benefits to both the individual and the organisation (Mullins 2005; Beardwell, Holden and Claydon 2004; Armstrong 2002). It can identify an individual’s strengths and areas of development and indicate how such strengths may best be utilized and weaknesses overcome. It can develop a greater degree of consistency through regular feedback on performance and discussion about potential. This encourages better performance from staff. It can provide information for human resource planning, to assist succession planning, to determine suitability for promotion and for particular types of employment and training. It can improve communications by giving staff the opportunity to talk about their ideas and expectations, and how well they are progressing (Coleman 1995). HR evaluations, if done correctly, will reward employees who are working in the interest of the firm and correct those who are not. There is no single evaluation system that can be used for all firms, but there are a variety of different evaluation systems to choose from. It is important to choose the HR evaluation method that will best suit the organisation (Mullins 2005; Huczynski and Buchanan 2001). Understanding more about some of the most popular HR evaluation methods will help managers to
determine which method best fits the needs of the organisation. Appraisal systems can be used to measure attitudes, behavior and performance. Measurement may be a combination of (Mullins 2005) ‘quantitative’ measures using some form of rating scale, such as, for example (1) excellent, (2) exceeds expectations or requirements of the job, (3) meets the expectations or requirements, (4) some weaknesses in meeting expectations or requirements, (5) unsatisfactory performance and ‘qualitative’ measures involving an unstructured, narrative report on specific factors /or overall level of behavior and work performance.

Fayol (1949) cited in Cardy et al (1994) asserted performance appraisal is a very important management tool kit. It covers four major management functions of planning, organizing, directing and controlling. Performance appraisal is essential for any organization to manage human resources.

Performance appraisal is a process within a performance management system. Traditionally, performance appraisal has been based on administrative suggestions. More recently, the scope of appraisal significantly has been expanded.

Murphy et al, (1995) stated that the vital functions of performance appraisal are deciding who should be promoted, terminated, given a raise and so forth. Salary decisions may depend heavily on assessments of job performance. Therefore, salary satisfaction is one of the factors that cause low performance and proof of the deficiencies of the current performance appraisal system.

Early appraisal systems in the UK emphasized the importance of incentives, as a top up to basic wages. Appraisal used to be an acceptable means of determining workers entire salary. During the 1950s appraisal was an accepted practice in many organizations that focused on rating individual’s personality traits. This data was used
to create development programmes for key employees. During the 1960s, appraisal migrated to become a participative indicative method that focused on job performance instead of personality attributes and aptitudes. Performance appraisal subsequently shifted to focus on evaluating value-add and identifying human abilities to work effectively on tasks within the business community. Individual’s attitudes have become the basis of theories of motivation. Performance appraisal continues to be central to HRM (Fletcher 1986 & Murphy et al, 1995). Monyatsi (2006) described motivation as the forces that cause people to behave as they do and these include intrinsic (cognitive and emotional) factors, such as feelings, aspirations, attitudes, thoughts, and perceptions).

Carroll & Schneir (1982) assert appraisal is "the process of identifying, observing, measuring and developing human performance in organizations" ((cited in Cardy et al, 1994). Appraisal is a significant event in individual’s work calendar since "any personnel decision that affects the status of employees regarding their retention, termination, promotion, demotion, transfer, salary increase or decrease or admission into a training program" (Latham et al, 1982). Latham et al suggest appraisal is a prerequisite to establishing effective selection, training and motivation. Latham stated that performance appraisal is considered if it is used as a review as it concerns worker efficiency and serves as an official and psychological contract between the organization and their employee. Appraisal processes make explicit goal statements relating to what is required of that individual.

Performance appraisal is a process of ensuring mutual understanding among the employee and the supervisor by the process of reviewing directly with the employee their job specific performance expectations and priorities, assigned responsibilities and communication.
It is a process of providing periodic and scheduled feedback that aims to improve teamwork and encourage the creation of abilities and greater efficiency to add value. The approach is used by management to help develop employees within their company and in their supply chain partners.

Appraisal can promote improvements in job performance by focusing and emphasizing on the inter- and intra-company communication and their shared values and goals.

The approach systematically clarifies job duties as they evolve over time. Documents defining the standards of performance are created and stored relating to the process based on discussions and assessments of performance with every employee.

Appraisal generally is considered useful to enhance value for the company. Appraisal meetings focus on one to one communication. As such, they can be used as a platform to relay significant messages, advice, decisions and set agreed action lists that aim to promote improvements and achieve targets. In effect, appraisal may be used to ‘piggy-back’ other initiatives. Part of the development that may be pre-requisite to achieving these can be education and training that unblocks or facilitates performance. These interventions may be localised to specific individuals, such as key workers, team leaders, supplier employees and service providers. Interventions may be more generic and rolled out to the entire workforce. The workforce may not be limited to an individual plant or company, for example the brand owner. The workforce may include first, second and lower tier suppliers.

1.5.3 Purpose of Performance Management System (PMS)

The purposes of performance management systems are of three kinds: strategic, developmental, and administrative (Cieri, and Kramar, 2005). In term of strategic
purpose, performance management system should link employee activities with the organization’s goals. It has been found that in order to achieve their strategic purpose, effective performance management systems exhibit five characteristics. These are: (i) The alignment of employee performance with organizational objectives, (ii) A clear articulation of the desired work culture, (iii) A clear specification of the results and competencies— that is, the ‘how the results are to be achieved’, (iv) The management behavior and style that encourages discretionary effort, (v) The simple processes and documentation that enable line managers and employees to see performance management as part of their daily workplace.

According to Dougherty and Dreher (2002), performance data are used in making decision about employees, including promotion to higher-level jobs, size of annual base salary adjustments, performance bonuses and commissions, lateral transfers, and terminations. Feedback, counseling, performance improvement and evaluation of organizational programs are the other purposes of PMS. According to Dougherty and Dreher (2002), in a PMS, performance measures are also used as the basis for providing employees with feedback and counseling to improve their performance. Another major use of performance measures centers around the evaluation of organizational programs.

Performance measures can serve as criteria for assessing the effectiveness or, or “validating” employee selection measures, employee training programs, work-family programs, or any other intervention design to improve employee productivity or organizational working.
1.5.4 Factors Influencing Performance Management System

Sole (2009) explained that there are two basic factors which influence performance management systems in public organization. Those are internal and external factors. Internal factors include leadership and internal management commitment, internal resources, performance-oriented culture, employee engagement, and maturity of PMS. Leadership is important in designing and developing effective performance measurement system and internal management commitment brings formality to the performance management reviews and as a consequence could influence employees’ commitment to achieving targets and improving performance. Measurement and management systems may require a lot of time and effort, especially at the beginning of the process as internal resources. According to Pettigrew (in Sole, 2009), culture can be thought of as the sum total of beliefs, ideologies, behaviors and values prevalent in organizations, which can influence organization power relationship and their response to change. It could have a great impact on its success if the employees are involved and motivated during the development of the performance measurement and management system. Experience in performance management and measurement systems will affect the system implementation and also its end results.

External factors include citizens and elected officials, labor unions, legal requirements. In particular, employees view performance-monitoring systems as systems intended to force them to work harder, and managers see such systems as efforts to put increased pressure on them to produce added results. All these elements sustain the role of a performance-oriented culture as a factor influencing the implementation of performance measurement and management systems in public organizations. In terms of time limitation and cost, the important variables for implementation of PMS are the internal factors.
1.5.5 Effectiveness of Performance Management System

Lawler (2003) also support that there are an amount of reasons for believing that systematically tying rewards to the outcome of a performance management system will make the performance management system more effective with respect to motivation, but there are also some that suggest it will make it less effective with respect to development.

Helm et al. (2007) noted that the following four metrics were used to evaluate the effectiveness of the performance management system: (i) A performance management survey, (ii) An institutional employee opinion survey question, (iii) The distribution of performance ratings, and (iv) The distribution of merit compensation.

PMS can be described as the set of metrics, or performance measures, used to quantify both the efficiency and the effectiveness of actions. Performance evaluation supposes the need for tools to analyze the measurements taken according to these two dimensions of efficiency and effectiveness (Lauraset al., 2010).

E-performance management systems will be more likely to produce incomplete criterion data on incumbent behavior than traditional systems. According to Armstrong and Baron (1998) performance management system helps employee to do their job better, and develop their skills and potential. Employees might be satisfied with the useful feedback from PMS. If they think that the assessments of performance are consistent, fair and unbiased, they feel more motivated after review meetings. PM helps them to know how their objectives relate to the business needs of the organization. If the information disclosed in performance reviews is used sensitively and productively by the organization, the employees, employee will feel more motivated and this affects their performance positively.
Chakraborty, Yin, and Mahitapoglu (2011) identified the relationship between determinants influencing the implementation and effectiveness of performance management system (PMS) in South East Asia. This study specifically examined organizational factors influencing PMS as well as effectiveness of the system. The results of the study demonstrated that three organizational factors influenced PMS and its effectiveness at a moderate level. In addition, among the three organisational factors, performance oriented culture (POC) has the strongest relationship with effectiveness of PMS. Employee engagement and strong internal management support is relatively important as pointed out by academic staffs to ensure the PMS is implemented successfully. These findings are also in line with the statement by Mone and London (2010) whom suggested that designing PMS processes that is able to foster employee engagement will lead to higher level of performance.

According to Economic and Social Council of United Nations (2003), performance management and measurement systems developed as a means of monitoring and maintaining organizational control, which is the process of ensuring that an organization pursues action plans that lead to the achievement of overall goals and objectives. These goals should in turn be direct manifestation of the mission and strategic orientation of an organization. Performance management, as related to Human Resource Management (HRM), is the process of delivering strengthened success to organizations’ by improving capabilities of individuals and teams.

Organizations should develop employee competencies in a manner aligned with the organization’s business purposes because the ultimate competitive asset of any institute is its people. This can be succeeded through Performance Management
System (PMS), which acts as both behavioral change tool and enabler of PMS improved organizational performance through being instrumental in driving change.

With the aim of being able to do so the PMS must have the ability to capture the internal and external changes or factors of the organization. Many organizations claim that their PMS implementation are somehow effective in a way that they have conducted and inserted all relevant and needed steps in their PMS. The effectiveness of implementation of PMS in organizations is still under ambiguity as the effectiveness of implementation depends on variety of factors that are interrelated to the implementation success in organizations.

According to San and Wong (2001) study, “Performance Management: a study of current and future practice in Malaysia”, recent report indicated that employees in Malaysia seldom use PMS except forced through obligation by organizations. Therefore, there is a need to find out how far is the effectiveness in implementation of PMS in organizations.

Cardy (2004) reviewed that performance management is a crucial aspect for the extreme of organizational effectiveness. It is considered the “Achilles Heel” of managing human capital because it is the key process through which work is accomplished and should therefore be a top priority for managers to review (Lawler, 2008).

According to Pettigrew (Sole, 2009), culture can be thought of as the sum total of beliefs, ideologies, behaviors and values prevalent in organizations, which can influence organization power relationship and their response to change. It could have a great impact on its success if the employees are involved and motivated during the development of the performance measurement and management system. Experience
in performance management and measurement systems will affect the system implementation and also its end results (Sole, 2009). Mone and London (2010) suggest that designing the performance management process to foster employee engagement will lead to higher levels of performance.

The effectiveness of HR systems is, in part, a task of the degree to which they are matching with both organizational and individual goals (Stone et al., 2006). According to Lawler (2003), there are a great number of design features that potentially can influence the effectiveness of a performance management system, and many of these have been empirically studied to clarify their impact.

1.5.6 Overcoming the Barriers to Performance Management Implementation

The emphasis is on importance of approaching the implementation of performance management from a change management perspective (e.g. Bourne et al, 2002; Kaplan and Norton, 2001; Kasurinen, 2002; McCunn, 1998). In this sense, factors such as the following are crucial for an effective PMS implementation.

**Top manager agreement, commitment and leadership** - start with a clear agreement at the top on the strategy, goals, measures and the performance targets to be implemented

**Managers’ participation and Accountability** - having the agreement, commitment and leadership at the top is insufficient if it does not go along with having the agreement, commitment and leadership of the rest of the management team. Furthermore, the involvement of employees is also crucial. Inviting managers and employees to assist on the development of the system facilitates their buy-in, and enhances their trust, understanding, and ownership of the performance measures. It is also important to
involve the Human Resources and the Information System functions. It is essential that managers become accountable for the performance being managed.

**Training and Education** - employees at all levels need to learn the principles of the system, its measures, tools and procedures (Frigo and Krumwiede, 1999; Maisel, 2001; Kaplan and Norton, 2001). Individuals can distort the information system by smoothing, biasing, focusing, gaming, filtering, "illegal” acts so it is important to train and educate individuals on how to engage rather than bypass the causes of dysfunctional behaviours.

**Communication and Feedback** - The factor “communication” is one of the most cited in the literature. When most authors stress its importance, they tend to focus on the reported feedback of measurement results to the employees (e.g. Forza and Salvador, 2000, 2001; Howell and Soucy, 1988; Keasy et al., 2000). Even so, there are other aspects related to communication that can affect the effectiveness of performance management.

The change management literature highlights the relevance of verbal and non-verbal communication (e.g. presentations, manuals, conversations, newsletters, reports, etc.) used to clarify all aspects related to the measures, in particular and performance management in general; and to facilitate the buy-in from the people in the organisation (Bourne et al. 2002b; Kaplan and Norton, 2001; Quinn, 1996; Schreuder, 1995).

**SPM system information infrastructure** - an information system should be designed for collecting, analysing and reporting the data efficiently. If data is flawed, the data integration process is flawed, or its communication is flawed, then decisions based on that data are more likely to be flawed. Using an IT system to support these tasks...
seems to be critical. However, some caution is needed in relation to the use of IT since the capabilities of technology, in terms of data capture and manipulation, provide a great temptation for senior management to introduce new measures (Wilson, 2000).

Another key issue about the design of an information infrastructure is mentioned by Mintzberg: “the manager must be viewed not as a reflective planner but as an adaptive information manipulator who seeks for trigger, speculative, current information. The manager, not the computer, is the real data bank of organisational information, even though he is a potential obstruction of the flow of information”.

With this statement, Mintzberg recalls that information systems are normally designed by the specialists of the organisation for the specialists of the organisation, and therefore fail to serve managers’ needs.

Franco and Bourne (2012) in their review of literature on performance management identified some of the most significant factors affecting the use of performance management. These factors are heavily influenced by the change management literature reflecting the need not only to manage the implementation of a performance management system but also the ongoing change that results from the review and management of performance. These factors are:

- Corporate culture
- Alignment
- Review and update
- Communication and reporting
- Involvement of employees
- Management understanding.
• Compensation link
• Management leadership and commitment
• Clear and balanced framework
• Agreement on strategy and success map.
• Data processes and IT support.

Performance is an outcome of both organisational and human activities. Positive performance outcomes only arise when the behaviour of employees is aligned with strategy and when employees are motivated. As a result it is crucial that performance management activities integrate culture, process, procedures and the management of people to generate learning and continually improve.

1.5.7 Performance Culture

One of the most difficult issues with regard to performance measurement and management is developing a culture that accepts performance measurement as a tool to help the organisation improve. Many areas of the public sector are blessed with people who are committed to improving public service, which is ultimately the objective that the government is trying to achieve through its use of performance targets. Measurement and targets can be a valuable tool to help achieve this objective if workers understand how measures and targets contribute to that objective.

However, the effort required to get acceptance of measurement as a tool to help improvement should not be under estimated. It requires considerable communication to highlight how measurement will help rather than hinder performance improvement. Furthermore experience would suggest that considerable leadership is required to demonstrate that measurement is being used to help the organisation and the people
within it to learn and to support improvement, not just a way of assigning blame for poor performance.

This discussion demonstrates that there are issues currently facing public sector organisations that are common to organisations in the private sector. It would appear that some of the lessons learnt over the last 20 years in the private sector can be used to inform public sector activities. There are examples of public sector organisations that have successfully taken the appropriate principles and applied them to develop relevant management systems that help them improve performance.

**Figure 2: An example of a Success Map**
1.5.8 Goal Setting

In business, goal setting encourages participants to put in substantial effort. Also, because every member has defined expectations for their role, little room is left for inadequate effort to go unnoticed.

Managers cannot constantly drive, or keep track of an employee’s work on a continuous basis. Goals are therefore an important tool for managers, since goals have the ability to function as a self-regulatory mechanism that acquires an employee a certain amount of guidance Shalley (1995) and Locke and Latham (2002) have distilled four mechanisms through which goal setting can affect individual performance:

1. Goals focus attention towards goal-relevant activities and away from goal-irrelevant activities.
2. Goals serve as an energizer; higher goals induce greater effort while low goals induce lesser effort.
3. Goals affect persistence; constraints with regard to resources affect work pace.
4. Goals activate cognitive knowledge and strategies that help employees cope with the situation at hand.

1.5.9 Goal–Performance Relationship

Locke et al. (1981) examined the behavioral effects of goal-setting, concluding that 90% of laboratory and field studies involving specific and challenging goals led to higher performance than did easy or no goals. While some managers believe it is sufficient to urge employees to ‘do their best,’ Locke and Latham (1981) have a contradicting view on this. The authors state that people who are told to ‘do their best’
don't. ‘Doing your best’ has no external referent, which implies that it is useless in eliciting specific behavior. To elicit some specific form of behavior from others, it is important that this person has a clear view of what is expected from him/her. A goal is thereby of vital importance because it facilitates an individual in focusing their efforts in a specified direction. In other words, goals canalize behavior (Cummings & Worley). However when goals are established at a management level and thereafter solely laid down, employee motivation with regard to achieving these goals is rather suppressed (Locke & Latham, 2002). To increase motivation, employees not only must be allowed to participate in the goal setting process, but the goals must be challenging as well. (Cummings & Worley)

1.5.10 Performance Feedback

Feedback is one of the most frequently used concepts in the fields of technical and social sciences. When looked at from the aspect of management of the organisation, analyses arise related to the management subjects of communication, decision-making, motivation, organisational change, performance evaluation, employee satisfaction and training (Herold and Greller, 1977).

Feedback is defined as a management process for the acquisition of knowledge as to what degree of efficiency and productivity it has brought to the work related activities of the employee and what sort of results these activities have yielded. That “performance feedback will remove ambiguity” is a motivational job factor much emphasised by Hackman and Lawler, who stated that where feedback is not obtained, job satisfaction and motivation may be effected negatively. On the other hand, Wanous stated that the ‘internal motivation’ effected deeply by performance feedback create job / organizational commitment. Brief and Aldag reached the conclusion in their research that performance feedback is one of the most important variable effect
internal motivation and job / organizational commitment. Thus it can be seen from performance feedback view that there is a correlated mutual interaction between the level of uncertainty, motivation and job satisfaction (Çakır, 2001).

The concept of feedback is explained in different areas in different forms. In a performance evaluation system, it is the prime information to achieve development by confirming or rejecting a performance or behaviour (Bee and Bee, 1997) from the aspect of interaction between individuals, how others perceive and evaluate an individual’s behaviour is explained by related data. Ashford and Cummings characterised the concept of feedback as an individual consciously making the effort to develop correct and appropriate behaviour in order to achieve the valuable results (Ashford, 1986). It has been stated that a performance feedback given in the right way which is meaningful and constructive yields exceedingly effective results in solving problems at work, increasing motivation and stimulating learning (London, 2003).

On the other hand, the ‘information’ dimension of performance feedback carries another meaning for employees. This is because feedback includes a personal dimension particularly oriented to employees. It can be said that performance feedback has a natural power of influence as personal information. Therefore, compared to other forms of information, performance feedback creates greater sensitivity because of including personal data (Morrison and Cummings, 1992).

Besides this it can be said that performance feedback is so close to human psychology. A person’s biases, fears and aims are seen to change the content, direction, source and form of performance feedback during the process of giving and receiving feedback. Therefore, it is a mistake to analyse a case of performance
feedback only within a framework of planned formal mechanisms (e.g. process, forms).

In research by Kluger and DeNisi (1996), feedback was seen to have positive effects on performance but it was also stated that the feedback created negative effects at a rate of over 38%. This statistical result clearly shows that how the mechanism of feedback is operated is not fully understood and thus the process of feedback and incorrect methods of appraisal can have destructive effects on performance and motivation (Steelman et al, 2004).

The primary aim of performance feedback is to reshape behaviour. That is, the basis of performance feedback is to develop employees’ behaviour performance (Tata, 2002; Mazdar, 1997). At a personal level it is also stated that the performance feedback increase the level of technical and behavioural efficiency. Achieving the desired behaviour from employees, encouraging expected behaviour and making it permanent, facilitating the achievement of goals by decreasing uncertainty, revising personal competencies, trying to find support while protecting self-respect, creating a positive impression in the social environment, acquiring new skills or adapting to a new and different environment can be counted among the possible personal reflections of performance feedback information (Dodd and Ganster, 1996).

The most clear case of the effects of feedback on behaviour was written by Judd in 1905 under the title, “Practice without knowledge of results”. However, the scientific concept of feedback as a tool to explain people’s behaviour was created in an article by Rosenblueth in 1943 (Baker and Buckley, 1996).

Performance feedback has an indirect effect on productivity via human resources systems such as training, compensation, career planning and job design. On the other
hand, there are also direct personal effects of performance feedback to be considered. Reducing the ambiguity of performance, developing manager-subordinate relationships, facilitating the employee achieving goals, personal development and adaptation to change are effects occurring in the personal dimension of performance feedback.

Figure 3: Theoretical Model of Performance Feedback

1.5.10.1 Reducing the Performance Ambiguity

When the level of perceived ambiguity related to performance increases, it can also be said that in the employees’ minds there is also uncertainty as to whether or not the level of performance desired by management is being demonstrated so there is an increase in feedback oriented (Bennett et al, 1990). Previous performance plays an important role in this perceived uncertainty. For those who have previously shown a
high level of performance in the organisation, feedback information is thought to be unnecessary in the belief that they are performing in the desired way. In contrast, those whose performance was not of a satisfactory level in the previous period always need performance feedback, even if it is negative, because of the performance uncertainty (Audia and Locke, 2003).

For an employee to see the results of his work and to know whether he has reached his goals or not is of the utmost importance from the aspect of success. Job feedback gives the employee the opportunity to develop competencies and allows to see improvement areas. It is not possible to understand whether an employee with a lack of feedback information related to performance level meets management expectations or not (Keser, 2006). Performance level should be reviewed in the framework of company aims and department goals, the degree of performance standard reached should be measured and most importantly, this information (feedback) should certainly be shared with the employees (Armstrong, 2006).

Performance feedback interviews develop inter-personal social relations and increase communication (Kaynak et al, 1998). As performance feedback interviews carry above all the aim of ‘sharing’, they create a positive or negative interaction between the manager and subordinate or in more general terms, the evaluator and evaluatee (Cacioppe and Albrecht, 2000). Uyargil et al. (2008) indicated that developing work relations and improving communication from the aspect of both rater and rate are the main success factors of performance feedback process.

A positive interaction established between a manager and subordinate in a performance feedback interview directly affects the employee’s satisfaction. This is because in establishing a two-way communication (Gravan et al, 1997) between the
manager and employee, there is an opportunity for the employee to voice his expectations, feelings, wishes or complaints. The freedom to express himself increases an employee’s motivation and develops the relationship with the manager (Nathan et al, 1991).

During a performance feedback interview the employee is able to actively participate by listening and answering questions. Perhaps without realising, many communication methods are used together during an interview, such as discussion, stating ideas, developing alternative solutions, commenting, criticising, analysing and body language. As face-to-face interviews are generally conducted one-to-one and in a suitable physical environment, from a communication aspect the person feels more comfortable and better able to express themselves. In this respect there is an increased ability to comment on and evaluate the employee’s perceived messages about performance being communicated (Rensburg and Prideaux, 2006).

Performance feedback interviews are not only giving information about technical issues. All topics relating to social life which affect the employee’s firm performance in a positive or negative way are included in the scope of the interview (Jansen and Vloeborghs, 1999). Family situation, social environment outside work and economic conditions are evaluated within the scope of the interview and an attempt made to find solutions to problems which are having a negative effect on work performance. Thus points can be discussed which are not spoken about in the work environment between manager and subordinate. The all-round development of this form of communication increases the emotional closeness of the superior and subordinate, enabling both sides to feel they know each other better (Cederblom, 1982).
If the performance feedback interview is aimed at benefitting the employee, to establish two-way communication, being constructive and giving especially positive feedback has been found to be useful. By bringing out a person’s weak performance areas, it is personally hurtful, puts them under psychological pressure and communication is hindered by negative feedback being prioritised and develops prejudice against the evaluator. Thus, to keep all the channels of communication open throughout the performance feedback interview and to develop a mutual social dialogue, the feedback information should be given in a constructive, organised and developed manner (Armstrong and Baron, 2007).

It must not be forgotten that formal feedback interviews in particular put the employee under pressure. Monitoring performance over a set period of time and laying that performance on the table at a face-to-face interview puts the employee under pressure and forces him to defend himself. In this situation the evaluator and evaluatee may find themselves in conflict from time to time. To prevent conflict it is necessary to put the employee at ease and be supportive throughout the interview. Even at this stage the feedback interview is rendered constructive by encouraging self-evaluation and enabling the employee to speak freely (Armstrong and Baron, 2007).

The mechanism of feedback is recognised as the opportunity to create various goals for employees, to provide development of the measurement of goals and direct the process of change which will increase performance (London and Smither, 1995). In this context, research by Kim and Hammer (1976) of 113 blue collar workers placed importance on the relationship between the creation of goals and performance feedback. In the study the workers were divided into 4 groups of which the first 3 groups received detailed explanations of a set of goals and took feedback, whereas the
fourth group were not allowed to get feedback. The findings of the study reached the conclusion that the groups which had been supported with feedback met the goals and had a higher level of job satisfaction (Ivancevich and McMahon, 1982). In another study by Renn and Fedor (2001) of performance feedback it was found that the setting of goals as the basis of increased job performance. The study stated that the person taking performance feedback used the acquired knowledge towards personal development goals, thus feedback had a positive effect on the employee’s qualitative and quantitative job performance (Ivancevich and McMahon, 1982).

Focussing on the goals is seen to be one of the reasons which directs a person towards accepting the message hidden in feedback. Despite being multi-dimensional, Locke and Latham (1990) tried to explain this situation with the goal theory. According to the goal theory, the negative gap between a goal and the performance shown and the perception of inadequate skills for the stated goal, force the person to seek performance feedback. Low performance and a low level of self-efficacy - self-efficacy is defined as a person’s belief in their own skills, capabilities and strength - (Budak, 2000) results in organization alienation. In this situation various behavioural changes are needed to regain the employee’s concentration at work and to motivate them towards the goal. At this stage, performance feedback increases self-efficacy and the chances of success towards the goal (Audia and Locke, 2003).

From another aspect performance feedback is also important in clarifying which goals it is necessary to be oriented towards and for existing goals, what kind of behavioural or technical requirements are needed (Vandewalle, 2003).

Performance feedback ensures information as to what degree the goals have been met. In this framework, a study by Locke et al in 1935 shed light on the interaction
between feedback and goals. In the study, apart from the control group, all the other participants received feedback according to their goals at set intervals, when evaluation was made as to at that level the goals were being met. The control group received no manner of feedback. The results of the study showed that the workers who had received feedback information were 18% more successful at reaching their goals than those who had not received feedback (Baker and Buckley, 1996).

Another study by Pritchard et al (1988) confirms that feedback obtained regarding goals increases performance. The results of the study conducted on air force personnel concluded that feedback information on goals increased performance at a rate of 75%. In 1990 Locke and Latham conducted a study where a training programme was supported by feedback and reached the conclusion at the end of the programme that the goals set had increased performance (Renn, 2003). In a study of 310 workers in an American timber production company, confirmed that setting goals and giving timely feedback increase job performance and efficiency, laying the ground for setting more realistic goals (Stansfield and Longenecker, 2006).

One aspect of performance feedback is to evaluate the success of existing goals and the other aspect is to set new goals in areas requiring improvement. In this context, performance feedback presents retrospective information on reaching the existing desired goals and also encourages the setting of new work and personal goals. In a study by Tziner and Latham (1989) of 20 managers and 125 workers in an Israeli airline where satisfactory level performance was supported by feedback information, sharing new goals towards strengths and weaknesses of the person is more satisfactory then sharing standard feedback issues in a standard open interview (Tziner and Latham, 1989).
1.5.11 Development Opportunities

Many performance evaluation forms have a personal development area on the reverse page and this is a most important section which directly affects the employee’s performance. This section states what it is necessary for the employee to acquire in the future for his benefit. The future planning in feedback interviews is so important in determining of areas for development. Personal development plans provide the acquisition of skills by encouraging training and the use of technical and behavioural knowledge at work (Armstrong and Baron, 2007).

Learning plays an important role in personal development. Within a performance evaluation mechanism, learning can be analysed at three separate phases. The first learning phase is based on the period prior to the performance evaluation process. In this phase the employee’s existing role is re-defined and new roles are determined. After it has been declared what is necessary to fulfil the new roles, the competencies can be worked on which are felt to be needed to make both the existing and new roles productive. The second phase which provides an opportunity for learning is the phase of the performance feedback interview. The need for training is identified by both the employee and the interviewer, the employee’s agreement is obtained in this phase. At this stage an analysis can be made of how far previously set learning goals have been achieved. This allows for the employee to be totally involved in the learning process.

Learning following the performance evaluation process is the final phase which presents the last opportunity. Here, according to decided personal development plan, the employee directed to acquire new knowledge, skills and competencies until the next performance evaluation period (Armstrong, 2006).

Personal development plans naturally require the change process. Organisms are known to resist change in their environment and in situations where they do not have
adequate capabilities to do that, they try to defend themselves. This occurrence equates with the concept of homeostasis, which was broached by the psychologist, Claude Bernard, in 1865. The concept is defined as living organisms tending to maintain a stable balance in their internal structure against changes in the external environment, so resisting the changes by continual adjustments against the dynamic external environment and performing reorganised activities, thus making the appropriate efforts to protect themselves from the unexpected environmental events. If the human structure of organisations is considered as a living and continually changing organism, the process of personal change relates to this concept. In situations when there is a need for change, for an individual to adapt to the change he forces himself to renew, reorganise and establish a stable balance. Feedback is the most important tool used to achieve internal control in the process of personal homeostasis.

1.5.12 Mentoring

Mentoring has become a “chameleon of opportunity” (E. L. Holloway, personal communication, 2005) within the modern workplace. With U.S. businesses spending upwards of $30 billion per year on formal training programs, which only account for five to nine percent of required employee learning (Tannenbaum, 1997), combined with the bulge of retirements looming from the baby-boom generation, businesses are searching for ways to protect their corporate knowledge, grow the knowledge base of new entrants into the workforce, increase capacity, and lower costs. Mentoring seems to be the right answer at the right time. The question to ask is whether corporations really understand this chameleon so they can take full advantage of the opportunity it appears to offer.
Over the last two decades, mentoring programs have been seized upon as learning development solutions by over 77% of the top 100 corporations that excel in human capital development (Training Magazine, 2003). Much like a chameleon, mentoring programs and those involved in mentoring relationships are significantly influenced by environmental conditions (Kram, 1988; Zachary, 2005). In turn, “mentoring can make a significant contribution to the transformation of organizational culture” (Holloway & Shoop, 2006). This reciprocal influence relationship between mentoring and the culture of the workplace has not received much attention, and, to some extent, the high value business case for mentoring is hidden in plain sight. Certainly the role of mentor as transfer agent of the culture (Wilson & Elman, 1990) is not yet broadly acknowledged, while the organizational manager, who still has responsibility for both cultural socialisation and career development of employees, is often excluded from mentoring program designs.

1.6 Overview of the Industries in which the Study is conducted

1.6.1 Financial Services Industry

- Overview

The present Rs 64 trillion (US$ 1.17 trillion) Indian banking industry is governed by the Banking Regulation Act of India, (1949) and is closely monitored by the Reserve Bank of India (RBI). RBI manages the country's money supply and foreign exchange and also serves as a bank for the Government of India and for the country's commercial banks. As of now, public sector banks account for 70 per cent of the Indian banking assets.
Liberal policies, Government support and huge development in other economic segments have made the Indian banking industry more progressive and inclusive with regard to global banking standards.

According to an IBA-FICCI-BCG report, India’s gross domestic product (GDP) growth will make the Indian banking industry the third largest in the world by 2025. According to the report, the domestic banking industry is set for an exponential growth in coming years with its assets size poised to touch USD 28,500 billion by the turn of the 2025.

➢ **Banking**

The banking sector is highly correlated with the economy of the country. The GDP growth is estimated at 7.6 per cent for FY13, so the economy is expected to recover and be back on the growth track in FY13. This will also result in the banking space witnessing a spurt in growth in business next fiscal.

1. Increasing disposable income and increasing exposure to a range of products, have led consumers towards a higher willingness to take credit, particularly, young customers.

2. Increasing spread of mobile banking, which is expected to become the second largest channel for banking after ATMs, will accelerate growth of the sector

3. Financial Inclusion Program: Currently, in India, 41% of the adult population doesn’t have bank accounts, which indicates a large untapped market for banking players. Under the Financial Inclusion Program, RBI is trying to tap this untapped market and the growth potential in rural markets by volume growth for banks.

The Indian economy will require additional banks, and expansion of existing banks to meet its credit needs.
Life Insurance

The Indian life insurance industry is estimated to grow at a compounded annual growth rate (CAGR) of 14.1 per cent, and reach US$ 111.9 billion in 2015 from US$ 66.5 billion in 2011, according to a report by BRIC Data. This would make India the third-largest market for life insurance in the world by 2015. India’s present position is at number 12, among top global markets for life insurance. Number of policies sold is expected to increase to 85.21 million in 2015 from 53.23 million in 2010.

Health Insurance

In the non-life insurance industry, health insurance is the second largest segment in India; with players in both the public and private sectors playing an active role. The industry is concentrated around 4 major public sector companies namely, New India Assurance, United India Insurance, National Insurance and Oriental Insurance. The Indian health insurance industry has seen major growth in the past 6 years. The Indian health insurance industry is expected to grow at a CAGR of 37.2% from FY’2011 - FY’2016; with surging medical costs, rising population and increased awareness among consumers in the country.

Challenges in BFSI

The banking and insurance industry is challenged by competitive pressures, changes in customer loyalty, stringent regulatory environment and entry of new players, all of which are pressuring the organizations to adopt new business models, streamline operations and improve processes.
1.6.2 Hospitality Industry

➤ **Overview**

The Indian hospitality industry has emerged as one of the key industries driving growth of the services sector in India. It has evolved into an industry that is sensitive to the needs and desires of people. The fortunes of the hospitality industry have always been linked to the prospects of the tourism industry and tourism is the foremost demand driver of the industry. The Indian hospitality industry has recorded healthy growth fuelled by robust inflow of foreign tourists as well as increased tourist movement within the country and it has become one of the leading players in the global industry. Foreign tourist arrivals (FTAs) into the country increased steadily from 2002 to 2008. FTAs dipped in 2009, due to the global economic slowdown; however, the impact on the Indian industry was much lower than that on the global counterparts. FTAs are expected to increase in 2010. On the other hand, domestic tourist movement within the country was the highest in 2009.

➤ **Industry characteristics**

Major characteristics of the Indian hospitality industry are:

- High seasonality

The Indian hotel industry normally experiences high demand during October–April, followed which the monsoon months entail low demand. Usually the December and March quarters bring in 60% of the year’s turnover for India’s hoteliers. However, this trend is seeing a change over the recent few years. Hotels have introduced various offerings to improve performance (occupancy) during the lean months. These include targeting the conferencing segment and offering lucrative packages during the lean period.
• Labour intensive

Quality of manpower is important in the hospitality industry. The industry provides employment to skilled, semi-skilled, and unskilled labour directly and indirectly. In India, the average employee-to-room ratio at 1.6 (2008-09), is much higher than that for hotels across the world. The ratio stands at 1.7 for five-star hotels and at 1.9 and 1.6 for the four-star and three-star categories respectively. Hotel owners in India tend to “over-spec” their hotels, leading to higher manpower requirement. With the entry of branded international hotels in the Indian industry across different categories, Indian hotel companies need to become more manpower efficient and reconsider their staffing requirements.

• Fragmented

The Indian hotel industry is highly fragmented with a large number of small and unorganised players accounting for a lion’s share. The major players in the organised segment include The Taj, Oberoi, ITC Hotels, and East India Hotels. The fragmented nature of the Indian hospitality industry is reflected in the Herfindahl Index of Concentration, which was at 0.062 in FY07.

➢ Classification of Hotels

The Ministry of Tourism has formulated a voluntary scheme for classification of operational hotels into different categories, to provide contemporary standards of facilities and services at hotels. Based on the approval from the Ministry of Tourism, hotels in India can divided into two categories:

1) DoT (Department of Tourism) classified hotels
2) DoT (Department of Tourism) unclassified hotels.
• **Classified hotels**

Hotels are classified based on the number of facilities and services provided by them. Hotels classified under the Ministry of Tourism enjoy different kinds of benefits such as tax incentives, interest subsidies, and import benefits. Due to lengthy and complex processes for such classification, a significant portion of the hotels in India still remain unclassified. The Ministry of Tourism classifies hotels as follows:

• **Star category hotels**

Within this category, hotels are classified as five-star deluxe, five-star, four-star, three-star, two-star and one-star.

• **Heritage hotels**

These hotels operate from forts, palaces, castles, jungles, river lodges and heritage buildings. The categories within heritage classification include heritage grand, heritage classic and heritage basic.

• **Licensed units**

Hotels/establishments, which have acquired approval/license from the Ministry of Tourism to provide boarding and lodging facilities and are not classified as heritage or star hotels, fall in this category. These include government-approved service apartments, timesharing resorts, and bed and breakfast establishments.

• **Unclassified hotels**

• **Branded players**

This segment mainly represents the branded budget hotels in the country, which bridge the gap between expensive luxury hotels and inexpensive lodges across the country. Budget hotels are reasonably priced and offer limited luxury and decent services. Increased demand and healthy occupancy have fuelled growth of budget hotels. These
hotels use various cost control measures to maintain lower average room rates without compromising on service quality. Ginger Hotels, ITC Fortune, Hometel, and Ibis are some of the popular budget hotels.

- **Other smaller players**

These are small hotels, motels and lodges that are spread across the country. This segment is highly unorganised and low prices are their unique selling point.

**Figure 4: Structure of the Hotel Industry**

![Diagram of the hotel industry structure](Source: D&B Research)

- **Growth drivers**

The fortunes of the hospitality industry are closely linked to the tourism industry and hence tourism is one of the most important growth drivers. In addition, all factors that aid growth in the tourism industry also apply to the hospitality industry. The Indian hospitality industry has recorded healthy growth in recent years owing to a number of factors:
• Increased tourist movement

Increased FTAs and tourist movement within the country has aided growth in the hospitality industry. Healthy corporate profits and higher disposable incomes with easier access to finance have driven the rise in leisure and business tourism, thus having a positive impact on the hospitality industry.

• Economic growth

India is one of the fastest growing economies in the world. It recorded healthy growth in the past few years, at more than 9% each during FY06-FY08. Despite the global economic slowdown, the Indian economy clocked growth of 6.7% and 7.4% in FY09 and FY10 respectively. Attractiveness of India has encouraged foreign players to set up their operational facilities in the country. Domestic industries have also made heavy investments to expand their facilities through Greenfield and Brownfield projects.

• Changing consumer dynamics and ease of finance

The country has experienced a change in consumption patterns. The middle class population with higher disposable incomes has caused the shift in spending pattern, with discretionary purchases forming a substantial part of total consumer spending. Increased affordability and affinity for leisure travel are driving tourism in India and in turn aiding growth of the hospitality industry. Emergence of credit culture and easier availability of personal loans have also driven growth in the travel and tourism and hospitality industries in the country.
Measures undertaken by the Government

Various policy measures undertaken by the Ministry of Tourism and tax incentives have also aided growth of the hospitality industry; some of them include:

- Allowance of 100% FDI in the hotel industry (including construction of hotels, resorts, and recreational facilities) through the automatic route.
- Introduction of ‘Medical Visa’ for tourists coming into the country for medical treatment.
- Issuance of visa-on-arrival for tourists from select countries, which include Japan, New Zealand, and Finland.
- Promotion of rural tourism by the Ministry of Tourism in collaboration with the United Nations Development Programme.
- Elimination of customs duty for import of raw materials, equipment, liquor etc.
- Capital subsidy programme for budget hotels.
- Exemption of Fringe Benefit Tax on crèches, employee sports, and guest house facilities.
- Five-year income tax holidays for 2-4 star hotels established in specified districts having UNESCO-declared 'World Heritage Sites'.

Trends in the Industry

The hospitality industry recorded healthy growth in early-2000, leading to a rise in occupancy rate during 2005/06 and 2006/07. Consequently, average rates for hotel rooms also increased in 2006/07. The rise in average rates was also a result of the demand-supply gap for hotel rooms, especially in major metros. Hotels were charging higher rates, at times much higher than that those charged by their counterparts in other parts of the world.
Lured by higher returns experienced by the hotel industry, a number of players, domestic as well as international, entered the space. India became one of the most attractive destinations for such investments.

While on the one hand, investments continued to flow into the hotel industry, hit by sharp rise in rates, corporates started looking for alternate cost-effective lodging options. This led to emergence of corporate guest houses, especially in major metros, and leased apartments as replacements for hotels. While average room rates rose in 2007/08, occupancy rates dropped. Occupancy rates plunged sharply next year, as demand declined following the global economic slowdown and the terror attacks in Mumbai. As a result, hotel rates declined during 2009-10.

The hospitality industry reported improvement in 2009-10, with domestic tourist movement in the country being at a high. While average rates remained lower, occupancy rates rose, supported by surge in domestic tourist movement. The industry is expected to report healthy growth in 2010/11, with expected increase in domestic tourist movement and rise in international tourist arrivals.

- Development of other markets

A major trend in recent times is the development of the hotel industry in cities other than major metros. As real estate prices have been soaring, setting up and maintaining businesses and hotels in major metros is becoming more expensive, leading to search for other cities entailing lesser costs. Consequently, hotel markets have emerged in cities such as Hyderabad, Pune, and Jaipur. This has led to increase in hotel development activity and expansion of hotel brands within the country.

The industry has also seen development of micro markets, especially in primary cities. As cities grow larger and more office spaces come up across the city, travelers prefer
to stay at hotels closer to the place of work/visit to save on time. This has led to the same hotel company setting up hotels across different location within a city.

- **Marketing strategies**

Marketing strategies in the hospitality industry have changed drastically over the past decade. A decade back, the brand name of the hotel was a major driver. However, with the arrival of well educated and experienced travelers, hotel companies have had to change/realign their marketing strategies. Today, hotel companies marketing strategies are differentiation, consistency, customer satisfaction, delivery of brand promises, and customer retention. Development and use of technology have also changed the way hotel companies operate, creating the need for online marketing. Travelers increasingly conduct basic research on the Internet. Blogs, networking sites, and travel sites are therefore being used for making choices and the information provided tends to influence opinions and choices. Several travel portals have emerged in recent times and travelers are increasingly using these portals to make hotel reservations.

- **Opportunities**

The prospects for the hotel industry in India are bright. With revival in the global economy, international tourist inflow into the country is expected to rise. Additionally, hosting of international sports events and trade fairs and exhibitions in the country are expected to aid both inflow of international tourists and domestic tourist movement.

The upcoming industrial parks, manufacturing facilities and ports across the country provide a good opportunity for budget and mid-market hotels. Although around 89,500 additional rooms are expected to come up in India in the next five years, the
supply of branded/quality rooms in India is much lower compared to other countries across the globe. Hence, there exists huge potential for investors and operators across all the segments of hotel industry in India. The increase in room inventories is expected to make the hotel industry more competitive and hotels would be under pressure to maintain quality and service levels at competitive prices. Competitive pricing amongst the branded hotels along with the addition of more budget and mid-market hotels would make the hotel industry cost competitive with other destinations. This would aid the growth of segments such as MICE, amongst others.

While there is immense potential, concerns for growth of the industry remain. These include high real estate prices in the country, security threats, shortage of manpower, high tax structure, and non-uniformity in taxes.

1.6.3 Information Technology Industry

➢ Overview

Information technology (IT) industry in India has grown at an exponential rate in the past few years and will continue doing so in the coming years as well. Analysts are upbeat about the huge potential of growth in the IT industry in India. The industry has played a key role in putting India on the global map.

➢ Growth Drivers

Some key highlights during FY 2012:

- Export revenues (including Hardware) estimated to reach USD 69.1 billion in FY2012 growing by over 16 per cent; Domestic revenues (including Hardware) at about USD 31.7 billion, growing by over 9 per cent.
- Software and services revenues (excluding Hardware), comprising nearly 87 percent of the total industry revenues, expected to post USD 87.6 billion in FY2012; estimated growth of about 14.9 per cent over FY2011.

- The industry continues to be a net employment generator – expected to add 230,000 jobs in FY2012, thus providing direct employment to about 2.8 million, and indirectly employing 8.9 million people.

**Figure 5: Revenue of IT and BPO Industry (Source:Nasscom)**

The IT-BPO sector has become one of the most significant growth engines for the Indian economy. Export revenue (excluding hardware) during FY2012 is likely to reach USD 69 billion accounted for by about a 2.2 million workforce. This represents a growth of 16.3 per cent; these exports also account for over 68.5 per cent share in aggregate IT-BPO revenue.
India’s outsourcing industry has witnessed a rebound and registered better than expected growth. The sector is expected to grow up to US$ 100 billion by the end of FY 2012 according to NASSCOM.

There have been a lot of contributing factors and drivers for increased technology adoption in India such as increasing competence of Indian companies, rapid advancement in technology infrastructure, strong fundamentals and enhanced level of support by the government. The government has also played a significant role in this transformation through procurements related to various IT programmes and initiatives.

1.7 Conclusion

This chapter builds a Foundation of the thesis. It aptly discusses the various theoretical Frameworks on Employee Engagement and Performance Management and takes into consideration the relevance of the various theories in understanding the origins of Employee Engagement and Performance Management. Further the discussion on Goal Setting, Performance Feedback, Mentoring and Development Opportunities throws light on the importance of PMS in developing a performance based culture in organisations. The researcher has also given an introduction to the three industries studied.